THE AMERICAN EAGLE GOLD COIN ACT OF 1982

HEARING

BEFORE THE

SUBCOMMITTEE ON
CONSUMER AFFAIRS AND COINAGE

OF THE

COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 6054

A BILL TO PROVIDE FOR THE MINTING OF THE AMERICAN EAGLE GOLD COIN PURSUANT TO ARTICLE I, SECTION 8 OF THE CONSTITUTION OF THE UNITED STATES

SEPTEMBER 28, 1982

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THE AMERICAN EAGLE GOLD COIN ACT OF 1982

TUESDAY, SEPTEMBER 28, 1982

House of Representatives,
Subcommittee on Consumer Affairs and Coinage,
Committee on Banking, Finance and Urban Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room 2220 of the Rayburn House Office Building; Hon. Frank Annunzio (chairman of the subcommittee) presiding.

Present: Representatives Annunzio, St Germain, Gonzalez, Patman, Hoyer, Paul, Evans, Wylie, and Carman.

Chairman Annunzio. The meeting of the subcommittee will come to order.

Ordinarily I do not begin my hearings unless a Republican is present, but a member of Congressman Ron Paul's staff has informed me that Mr. Paul will be delayed a few more minutes. He is coming from Texas and has had problems with the weather, but he will be here. In the interest of time, because one of the witnesses is already here, I will make my opening statement and then we will interrupt the hearings so that Mr. Paul can make his opening statement.

This morning the subcommittee meets to hear testimony on H.R. 6054, the American Eagle Gold Coin Act of 1982. This bill is sponsored by the distinguished ranking minority member of the subcommittee, Mr. Paul. I am sure our hearings today will be particularly enlightening and lively.

We are privileged to have on the subcommittee two members of the Gold Commission. Mr. Paul supported the Gold Commission's recommendation and Mr. Wylie generally opposed them, so I am sure we will have very interesting hearings this morning.

The issuance of gold coins by the United States is a topic that has been much debated. In March of this year the Gold Commission issued its report, which contained a number of controversial recommendations. The major and, certainly the most controversial, recommendation was that the Treasury issue gold bullion coins with dollar denominations or legal tender status to be sold with a small markup over the market value of the gold content.

Furthermore, the Commission recommended that the coins be exempt from capital gains taxes and sales taxes. It is these recommendations which form the basis for H.R. 6054. The tax recommendations were immediately controversial, and 30 members of the House Banking Committee, including myself, and 6 members of the subcommittee signed a letter to the Commission opposing the tax exemption.

As we pointed out, the exemption from capital gains taxes would tend to divert capital from productive investments to speculation in gold. At a time when we so desperately need capital investments to modernize our factories and build new ones, this provision seems particularly unwise.

I am not opposed to the issuance of gold coins by the United States. The Olympic Coin Act passed this year provides for the first U.S. gold coins in 50 years. In fact, that coin has full legal tender status, unlike the coins proposed by the American Eagle Gold Coin Act.

The concept of an American gold coin has merit; however, the specifics need to be carefully considered. A resumption of gold coinage could have serious domestic and international effects. Tax and monetary policy considerations are involved. Economic effects must also be considered.

The hearings today mark the start of what I am sure will be a long debate in Congress over the role of gold in the monetary system. The debate is sure to be lively. I look forward to hearing from our witnesses today and I am sure that I will learn much from the witnesses.

[The text of H.R. 6054 follows:]

97TH CONGRESS
2D SESSION

H. R. 6054

To provide for the minting of the American Eagle gold coin pursuant to article I, section 8 of the Constitution of the United States.

IN THE HOUSE OF REPRESENTATIVES

APRIL 1, 1982

Mr. PAUL (for himself, Mr. LOTT, Mr. McDONALD, Mr. HANSEN of Idaho, Mr. PHILIP M. CRANE, Mr. JEFFRIES, Mr. COLLINS of Texas, Mr. ROUSSELOT, Mr. DANIEL B. CRANE, Mr. EDWARDS of Oklahoma, Mr. CRAIG, and Mr. BROWN of Colorado) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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A BILL

To provide for the minting of the American Eagle gold coin pursuant to article I, section 8 of the Constitution of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "American Eagle Gold Coin Act of 1982".

AUTHORIZATION FOR MINTING

SEC. 2. (a) The Secretary of the Treasury shall mint gold coins which shall be referred to as "American Eagles",

and which shall be minted as provided in this Act in accordance with the following specifications:

(1) an "Eagle", having a gold content of one fine troy ounce and a diameter of 1.28 inches;

(2) a "Half Eagle", having a gold content of one-half fine troy ounce and a diameter of 1.06 inches;

(3) a "Quarter Eagle", having a gold content of one-quarter fine troy ounce and a diameter of 0.87 inches; and

(4) a "Tenth Eagle", having a gold content of one-tenth fine troy ounce and a diameter of 0.65 inches.

(b) Coins minted under this Act shall be of a fineness of 900 parts per 1,000 of pure gold and 100 parts per 1,000 of alloy. Coins shall not be struck from ingots which deviate from the standard contained in this subsection by more than one part per thousand.

(c) Coins minted under this Act shall bear—

(1) on the obverse side, the design of the 1908 double eagle, together with inscriptions specifying the gold content and the year of minting;

(2) on the reverse side, the reverse of the Great Seal of the United States; and

(3) have reeded edges.

(d) The Secretary of the Treasury may mint the American Eagle coins authorized by this Act in the weights and sizes set forth in subsection (a) of this section, in such quantities as he determines to be necessary to meet public demand.

(e) Notwithstanding section 102 of the Coinage Act of 1965 (31 U.S.C. 392), coins minted under this Act shall not be legal tender for public debts, public charges, taxes, duties, or dues. Nothing in this subsection shall prevent the use of such coins or coins of like weight for the payment of private debts.

DELIVERY AND MARKETING

SEC. 3. (a) Coins minted under the authority of this Act shall be delivered to banks and other institutions and retailers for distribution and sale to the public, pursuant to rules and regulations of the Secretary of the Treasury.

(b) The Secretary of the Treasury shall begin delivery of the one-ounce American Eagle coins authorized by this Act, not later than January 1, 1984, and delivery of the one-half, one-quarter, and one-tenth ounce coins not later than January 1, 1985.

PRICE

SEC. 4. (a) Coins authorized by this Act shall be sold to the public in accordance with section 3 of this Act, at a price to be determined daily by the Secretary of the Treasury, according to their relative weight of gold, equal to the price of

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gold bullion sold on the Commodity Exchange, Incorporated, New York, at 4 o'clock postmeridian on the previous business day, plus an amount determined by the Secretary to pay for the minting, delivering, and distribution expenses of the coins, and all other related expenses.

(b) The Secretary of the Treasury shall have the power to adjust the seigniorage charge on the sale of all coins authorized by this Act to finance the expenses for minting, delivering, and distributing such coins.

EXCHANGE OF BULLION FOR COINS

SEC. 5. (a) Any owner of gold bullion may deposit such gold in any mint of the United States designated by the Secretary for such purpose and receive in exchange for its relative weight of gold content an equal weight of gold in American Eagle coins, less an amount to be determined by the Secretary of the Treasury to be equal to the charge established pursuant to section 4(a) and any other related expenses.

(b) All gold bullion deposited in any United States mint pursuant to subsection (a) of this section shall be available for the minting of American Eagle coins.

(c) The Secretary may prescribe such regulations as may be necessary to carry out this section, including regulations specifying charges for assay and other related expenses.

TAXATION

SEC. 6. (a) Any gain or loss derived from the sale, exchange, or other disposition of any coin authorized by this Act shall not be recognized as a capital gain or loss under any Federal, State, or local income tax.

(b) Any purchase or sale of any such coin shall be exempt from any Federal, State, or local sales, personal property, or excise tax.

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Chairman ANNUNZIO. Our first witness this morning is Dr. Manuel H. Johnson, Acting Assistant Secretary, Economic Policy, of the Department of the Treasury, Washington, D.C. He is accompanied by the Treasurer of the United States, the Honorable Angela Buchanan, who is quickly becoming what I consider to be a good friend of the chairman of this subcommittee. I am delighted that she is here this morning and I want to wish her a healthy and a good passage of the year and a good delivery.

Dr. Johnson.

STATEMENT OF DR. MANUEL H. JOHNSON, ASSISTANT SECRETARY FOR ECONOMIC POLICY (DESIGNATE), DEPARTMENT OF THE TREASURY, ACCOMPANIED BY HON. ANGELA BUCHANAN, U.S. TREASURER, AND DR. JACOB DREYER, ASSISTANT DEPUTY TO THE UNDER SECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

Dr. JOHNSON. Thank you, Mr. Chairman.

Accompanying me along with the U.S. Treasurer is also Dr. Jacob Dreyer, who is Deputy Assistant to the Under Secretary for Monetary Affairs at the Treasury, who can also answer some specific questions about some theoretical issues after I give my prepared statement.

It is a pleasure to be with you today to present the views of the Treasury on H.R. 6054, the American Eagle Gold Coin Act of 1982.

Before I begin my testimony, Mr. Chairman, I want to take this opportunity to compliment two members of the subcommittee. I should say more, actually, four: Mr. Paul, who introduced this bill, and Mr. Neal, Mr. Wylie, and Mr. Reuss for the important contributions they made to the deliberations and conclusions of the Gold Commission.

The Gold Commission was directed by the Congress to assess the role of gold in the domestic international monetary systems and to study the U.S. policies related to gold. This report was transmitted to Congress on March 31, 1982. The bill being considered this morning is the direct outcome of the work of the Gold Commission.

The bill provides for the minting of gold coins, which would once again give Americans the opportunity to acquire and use gold coins minted by the U.S. Treasury. That is a laudable objective and a logical followup to the rights restored to our citizens in 1974 to buy, sell, and own gold in any form.

For 50 years the Treasury did not have the authority to mint and issue gold coins. Such authority was granted following the recommendation of this subcommittee earlier this year and the passage of the Olympic Commemorative Coin Act, Public Law 97-220, for a limited issue of a specific gold coin. The bill before you would provide a general issue which would satisfy public demand for American gold coins as it may develop in the future.

The Treasury supports basic elements of the bill even though it contains some provisions which concern us. We agree that the coin should be specified solely by weight without dollar denomination and that they be sold at the market value of the gold content plus a markup covering the cost of minting and distribution.

There is a demonstrated worldwide demand for coins with these specifications. The coins would be available to private citizens at the store value and on a voluntary basis, a medium of exchange. At the same time, the absence of a specified face value avoids any implication, directly or indirectly, of the reestablishment of an official price for gold.

We also agree the coin should be issued without legal tender status. Legal tender status for gold coins would compel their acceptance by private creditors for debts or by the Treasury in satisfaction of taxes, with the fluctuating market value of gold. That would require a complex system for reestablishing and announcing a fluctuating legal tender value for the coins on a continuous basis, with attendant formidable problems of operating such a system. Instead, the intent of the bill as we interpret it is to provide the private sector with an additional alternative not to impose on the economy a dual monetary standard.

We support the proposed design of the coin. The American eagle and the double eagle were among the most attractive, popular and widely distributed coins ever minted by the United States. Return to these classic designs would be expected to enhance their popularity and acceptance.

We would anticipate a strong demand for proposed one ounce and one-half ounce coins. However, in our view there is likely to be little demand for one-fourth ounce and one-tenth ounce coins. In the production of the krugerrand of South Africa, for example, the one-fourth ounce coin represents only about 5 percent of the gold content of total krugerrand production, and for the one-tenth ounce, it is less than 4 percent.

Purchasers of small-size coins would have to absorb a disproportionately high minting and production cost relative to the value of the gold content. For example, if those costs represent 4 percent of the value of a one-ounce coin, they would be about 40 percent of the one-tenth ounce coin. In addition, there is a large spread between the bid and asked prices of the small coins in the secondary markets, which discourage their use. Such coins are used mainly as items of jewelry.

For all of these reasons, the Treasury Department recommends that provisions for minting one-fourth and one-tenth ounce coins be deleted from the bill.

The proposed American eagle coins could be expected to be good substitutes for the gold medallions being minted under the American Arts Gold Medallion Act. Therefore, the Treasury recommends that the medallion program be terminated with the introduction of the new gold coins.

The Treasury perceives no problems with the provisions relating to distribution of the coins. We anticipate auctions and dealer networks as the preferred method of distribution. The bill provides sufficient flexibility to permit the use of several possible alternative distribution systems. The system chosen for distributing the coins may, however, influence the method for establishing their price.

We believe that the pricing formula proposed in section 4, which requires that prices be based on the previous day's 4 p.m. COMEX price, is unnecessarily restrictive. If on a given day the market

price of gold is significantly in excess of the previous day's closing COMEX price, as is frequently the case, opportunties will arise for risk-free profits accruing to those who would happen to enjoy on this day convenient access to the Treasury window.

We feel, therefore, that greater flexibility is needed to deal with rapid changes in gold prices. Accordingly, we propose that the price be determined by the Secretary of the Treasury based on a daily market price and with frequency dictated by the circumstances.

I now wish to turn to the most important and difficult of the issues associated with the proposals for the issuance of gold coins, that of taxation, an issue which was among the most complex confronted by the Gold Commission. Within the Commission, there was a large majority in favor of a bullion coin as provided—for a number of reasons.

Several felt that a gold coin should have the opportunity to develop as a circulating means of payment if there was public interest in it. Some favored a coin to compete with foreign coins like the krugerrand, and some favored a greater role for gold in the monetary system, and some held no strong view at all.

There was less agreement over the characteristics of coin, that is, whether it should have legal tender status, whether it should be minted in unlimited amounts, whether the Treasury should replace gold used in minting the coins, whether the Treasury should have an obligation to redeem the coins for dollars, and whether it should be exempt from capital gains and sales taxation.

The Commission finally adopted recommendations that the coin not have legal tender status, that the Treasury should mint the coins from existing gold stocks and that it should be exempt from capital gains and sales taxes.

The reason underlying the legal tender and tax recommendations had two elements. First, there was a general view that the Government should not be in the position of legally obligating people to accept gold coins in payment at a fluctuating market value, which would be the result if they were given legal tender status. At the same time, there was a desire to facilitate their use as money on a voluntary basis and to eliminate impediments that would stand in the way of that development.

This led to the recommendation for tax exemption. The Secretary of the Treasury, on whose behalf I am testifying today, in his position as Chairman of the Commission supported these recommendations and the gold coin proposal in general. However, these issues were not studied exhaustively by the Commission, and its own recommendations indicate there remain a number of serious considerations that need to be fully explored by the Congress.

The tax area, in particular, raises several difficulties which may require further examination. We welcome these hearings as essential to providing the Congress further information and analysis on these complicated issues. In an effort to provide Treasury-minted gold coins which could, if desired by the American people, be used as money, an argument can be made that an exemption from taxation should logically follow.

With this caveat in mind, there are several issues of tax policy which should be made explicit. The bill provides that gain or loss from the sale, exchange or other disposition of any coin authorized

by the bill shall not be recognized as a capital gain or loss under any Federal, State or local income tax and that any purchase or sale of any such coin shall be exempt from Federal, State and local sales, personal property and excise taxes.

In this respect, the bill seeks to incorporate the basic recommendation of the Gold Commission that transactions in such coins be free from such taxes. Should the Congress decide against the tax exemption for the American eagle, the Treasury recommends that the entire proposal be dropped.

The Treasury believes that many sound economic arguments can be made in favor of the Gold Commission's recommendations as reflected in the tax provisions of the bill before us. We believe, however, that there are many unresolved tax issues which follow from this basic tax provision of the bill.

I shall attempt to give a brief overview of tax implications that appear to me to be logical extensions of the basic tax provisions of the bill, and namely, the exemption of transactions in gold coins from capital gains and sales taxes. This provision would imply that all non-interest bearing claims on these coins—certificates of deposit, warehouse receipts, promissory notes, for example—should be accorded the same tax treatments as the coins themselves. Otherwise, the owners of such claims would go through totally meaningless motions of redeeming their claims in gold coins and then proceeding with a tax free exchange.

Similarly, I have no difficulty interpreting what the bill implies for treatment of an exchange of gold coins for forms of property other than paper money. Acquisition of such property would be subject to State and local taxes as if the payment were made in paper money.

Furthermore, if a capital asset is acquired in exchange for gold coins, the applicable tax basis would be its market value at the time of acquisition. The initial dollar price at which coins were purchased would be irrelevant for the determination of the tax basis in question.

Finally, interest received in gold coins would be taxed on its dollar value at the time of receipt. It would be treated for tax purposes analogously to income received in foreign currencies. I think these are implications of the basic policy choice contained in the bill, but the bill as drafted does not explicitly provide for these results. Moreover, the bill leaves unanswered questions about the proper tax treatment of interest-bearing claims on gold coins, such as bonds or future contracts payment in gold coins, about the taxation of dealers in these coins, about the determination of the proper tax basis for gold coins in estates and deferred gifts, or about the tax treatment of exchanges of American eagles for other gold coins or gold bullion.

In this connection I should digress to the provision of the bill, section 5, specifying two methods of payment for the purchase of American eagles to the Treasury. In addition to payment in dollars, the bill provides for purchasing coins from the Treasury in exchange for gold bullion, which in turn could be used for the production of additional coins.

On a technical level, we would not offer objections to the later method if the provision is desired by Congress. We want to point

out, however, that it would entail certain additional expenses, such as assaying, melting, transporting, et cetera, which we would have to pass on to the purchaser. We would also plan to designate only a small number of U.S. Mint facilities to handle such exchanges.

On a more fundamental level and especially in connection with the tax issues addressed earlier, the bill sidesteps the question of the tax treatment of bullion for coins swaps with the Treasury. We think that the bill should be explicit in denying tax exemptions to such swaps.

Bullion tendered to the Treasury in exchange for coin should be considered for tax purposes as sold for dollars at the daily price used for pricing the coins, and the resulting capital gain or loss should enjoy no escape from taxation. Otherwise, the pertinent provision of the bill would have an effect of retroactively exempting from taxation all heretofore unrealized capital gains that have accrued to gold bullion owners during the past decade. Apart from substantial revenue losses to the Treasury, we feel very strongly that such an outcome would be very undesirable from the point of view of public policy.

Turning to other aspects of the bill, we recognize that the main thrust behind proposals for the introduction of a U.S. gold coin is to provide a form of money which people can hold and use as an alternative to money expressed in terms of dollars. Undoubtedly, the experience of inflation in the United States and public dissatisfaction with the performance of fiat money as a reliable store of value have contributed to the feeling of a need for such a monetary asset.

The Government's monetary monopoly privilege can be justified only if it is exercised prudently. In a sense, such a new form of monetary asset would provide a kind of thermometer which would signal to monetary authorities collective public judgment on how responsibly this privilege is being used. The Treasury does not regard unfavorably a mechanism which would perform this function.

This proposal for a gold coin is not, as is clear from reading the report and recommendations of the Gold Commission, a move toward adoption of a gold standard. There would be no official price of gold. The Treasury would not assume any commitment to convert privately or officially held dollars into gold bullion at an established price.

There would be no connection between U.S. gold reserves and monetary policy. There would be, however, a useful indirect linkage between the amount of U.S.-held bullion used for minting coins and monetary discipline if the public were to treat these coins as an alternative medium of exchange should the Government ever reverse the current policy of restoring price stability. That is, I believe, the intent and expectation of proponents of the legislation.

The Treasury, of course, regards the U.S. gold stock as part of national patrimony and a valuable precautionary asset. Its proper size, however, is the subject of a large variety of views on which there was little agreement on the part of the Gold Commission.

The members agreed that a zero stock obviously is not the appropriate size but that no precise level for the gold stock is necessarily

right. They opposed auction sales which were intended to dispose of Treasury holdings over some stated period of years.

The Treasury fully supports the Commission's view that the Treasury retain the right to conduct transactions in gold bullion at its discretion, provided adequate levels are maintained for contingencies. The Treasury does not regard the proposal in the bill before us to be at variance with these views.

The main point to be made is that the public's appraisal of the management and performance of the U.S. economy would largely determine the demand for gold coins, with the effect on the U.S. gold stock not predictable. This is not a proposal to sell a specific amount of Treasury gold, and from the point of view of the gold stock, the Secretary of the Treasury could under existing authority determine that the stock should be replenished through Treasury purchases.

The stock might also be augmented by receipts of bullion for coins as proposed in the bill before you. It must be kept in mind, moreover, that our stock presently totals $264 million fine troy ounces equivalent in value at current market prices to around $110 billion. This figure may be compared with annual U.S. imports in gold coins currently averaging about 3 million ounces.

Nevertheless, the concern that the demand for coins might exhaust the Treasury gold stock was identified by the Gold Commission as a matter requiring more thorough exploration by the Congress. In the Treasury's view, therefore, the proposed legislation calling for a tax-exempt, Treasury-minted, gold bullion coin warrants our qualified support.

We would be pleased to provide the committee our suggestions for a number of technical modifications in the bill. However, there remain some issues which need further exploration in the tax area in particular. These hearings provide a valuable thrust to the full consideration of these issues, and the Treasury is prepared to work closely with the committee in the endeavor to have them promptly resolved.

Thank you, Mr. Chairman.

[Dr. Johnson's prepared statement, on behalf of the Secretary of the Treasury, follows:]

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STATEMENT OF MANUEL H. JOHNSON
ASSISTANT SECRETARY FOR ECONOMIC POLICY (DESIGNATE)
BEFORE THE
COMMITTEE ON CONSUMER AFFAIRS AND COINAGE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES WASHINGTON, D.C.

It is a pleasure to be with you today to present the views of the Treasury on H.R. 6054, the American Eagle Gold Coin Act of 1982.

Before I begin my testimony, Mr. Chairman, I want to take this opportunity to compliment two members of the committee, Mr. Paul, who introduced this bill, and Mr. Neal, for the important contributions they made to the deliberations and conclusions of the Gold Commission. The Gold Commission was directed by the Congress to assess the role of gold in the domestic and international monetary systems and to study the U.S. policies related to gold. Its report was transmitted to the Congress on March 31, 1982.

The bill being considered this morning is a direct outcome of the work of the Gold Commission. The bill provides for the minting of gold coins, which would, once again, give Americans the opportunity to acquire and use gold coins minted by the U.S. Treasury. That is a laudable objective and a logical follow-up to the rights restored to our citizens in 1974 to buy, sell, and own gold in any form.

For fifty years the Treasury did not have the authority to mint and issue gold coins. Such authority was granted following the recommendation of this Subcommittee earlier this year and passage of the Olympic Commemorative Coin Act, P.L. 97-220, for a limited issue of a specific gold coin. The bill before you would provide a general issue which would satisfy public demand for American gold coins as it may develop in the future.

The Treasury supports basic elements of the bill, even though it contains some provisions which concern us. We agree that the coins should be specified solely by weight, without dollar denomination, and that they be sold at the market value of their gold content plus a mark-up covering the costs of minting and distribution There is a demonstrated worldwide demand for coins with these specifications The coins would be available to provide to private citizens both a store of value and on a voluntary basis, a medium of exchange At the same time the absence of a specified face value avoids any implication, directly or indirectly, of the reestablishment of an official price of gold.

We also agree that the coins should be issued without legal tender status Legal tender status for gold coins would compel their acceptance by private creditors for debts or by the Treasury in satisfaction of taxes But the fluctuating market value of gold would entail the creation of a complex system for establishing and announcing a fluctuating legal tender value for the coins on a continuous basis, with attendant formidable problems of operating such a system. Instead, the intent of the bill, as we interpret it, is to provide the private sector with an additional alternative, not to impose on the economy a dual monetary standard.

We support the proposed design of the coins. The American eagle and the double eagle were among the most attractive, popular and widely distributed gold coins ever minted by the United States. Return to these classic designs would be expected to enhance their popularity and acceptance

We would anticipate a strong demand for the proposed one-ounce and half-ounce coins However, in our view there is likely to be little demand for one-fourth ounce and one-tenth ounce coins In the production of krugerrands by South Africa for example the one-fourth ounce coin represents only about 5 percent of the gold content of total krugerrand production, and for the one-tenth ounce, it is less than 4 percent. Purchasers of small sized coins would have to absorb a disproportinately high minting and production cost relative to the value of the gold content. For example if those costs represent 4 percent of the value of a one-ounce coin they would be about 40 percent of the one-tenth ounce coin. In addition, there is a large spread between the bid and asked prices of these small coins in secondary markets which discourages their use. Such coins are used mainly as items of jewelry. For all of these reasons the Treasury Department recommends that provisions for minting one-fourth and one-tenth ounce coins be deleted from the bill.

The proposed American Eagle coins could be expected to be good substitutes for the gold medallions being minted under the American Arts Gold Medallion Act. Therefore, the Treasury reçommends that the medallion program be terminated with the introduction of the new gold coins.

The Treasury perceives no problems with the provisions relating to distribution of the coins; we anticipate auctions and dealer networks as the preferred method of distribution. The bill provides

sufficient flexibility to permit the use of several possible alternative distribution systems.

The system chosen for distributing the coins may, however, influence the method for establishing their price. We believe that the pricing formula, as proposed in Section 4, which requires that prices be based on the previous day's 4:00pm COMEX price, is unnecessarily restrictive. If on a given day the market price of gold is significantly in excess of the previous day's closing COMEX price, as is frequently the case, opportunities will arise for riskfree profits accruing to those who would happen to enjoy on this day convenient access to the Treasury window. We feel, therefore, that greater flexibility is needed to deal with rapid changes in gold prices. Accordingly we propose that the price be determined by the Secretary of the Treasury based on a daily market price and with frequency dictated by circumstances.

I now wish to turn to the most difficult of the issues associated with proposals for the issuance of gold coins, that of taxation -- an issue which was among the most complex confronted by the Gold Commission.

Within the Commission, there was a large majority in favor of a bullion coin as provided -- for a number of reasons. Several felt that a gold coin should have the opportunity to develop as a circulating means of payment if there were public interest in it; some favored a coin to compete with foreign coins like the krugerrand; some favored a greater role for gold in the monetary system, and some held no strong view.

There was less agreement over the characteristics of a coin - that is whether it should have legal tender status, whether it should be minted in unlimited amounts, whether the Treasury should replace gold used in minting the coins, whether the Treasury should have an obligation to redeem the coins for dollars and whether it should be exempt from capital gains and sales taxation. The Commission finally adopted recommendations that the coin not have legal tender status, that the Treasury should mint the coins from existing gold stocks, and that it be exempt from capital gains and sales taxes.

The reasoning underlying the legal tender and tax recommendations had two elements:

-- First, there was a general view that the Government should not be in the position of legally obligating people to accept gold coins in payment at a fluctuating market value, which would be the result if they were given legal tender status.

-- At the same time, there was a desire to facilitate their use as money on a voluntary basis, and to eliminate impediments that would stand in the way of that development. This led to the recommendation for tax exemption.

The Secretary of the Treasury, on whose behalf I am testifying today, in his position as Chairman of the Commission, supported these recommendations, and the gold coin proposal in general. However these issues were not studied exhaustively by the Commission, and its own recommendation indicates that there remain a number of serious considerations considerations that need to be fully explored by the Congress.

The tax area, in particular, raises several difficult issues which may require further examination. We welcome these hearings as essential to providing the Congress further information and analysis on these complicated issues. In an effort to provide Treasury minted gold coins which could, if desired by the American people, be used as money an argument can be made that an exemption from taxation should logically follow. With this caveat in mind, there are several issues of tax policy which should be made explicit.

The bill provides that gain or loss from the sale, exchange or other disposition of any coin authorized by the bill shall not be recognized as a capital gain or loss under any Federal State or local income tax; and that any purchase or sale of any such coin shall be exempt from Federal State and local sales personal property and excise taxes. In this respect, the bill seeks to incorporate the basic recommendation of the Gold Commission that transactions in such coins be free from such taxes Should the Congress decide against the tax exemption for the American Eagle, the Treasury recommends that the entire proposal be dropped.

Treasury believes that many sound economic arguments can be made in favor of the Gold Commission's recommendation as reflected in the tax provisions of the bill before us. We believe, however, that there are many unresolved tax issues which follow from this basic tax provision of the bill.

I shall attempt to give a brief overview of tax implications that appear to me to be logical extensions of the basic tax provision of the bill, and namely the exemption of transactions in gold coins from capital gain and sales taxes. This provision would imply that all non-interest bearing claims on these coins -- certificates of deposit, warehouse receipts, promissory notes -- should be accorded the same tax treatments as the coins themselves. Otherwise, the owners of such claims would go through totally meaningless motions of redeeming their claims in gold coins and then proceeding with a tax free exchange. Similarly, I have no difficulty in interpreting what the bill implies for treatment of an exchange of gold coins for forms of property other than paper money -- acquisition of such property would be subject to state and local taxes, as if the payment was made in paper money. Furthermore, if a capital asset is acquired in exchange for gold coins, the applicable tax basis

would be its market value at the time of acquisition; the initial dollar price at which coins were purchased would be irrelevant for the determination of the tax basis for the asset in question. Finally, interest received in gold coins would be taxed on its dollar value at the time of receipt it would be treated for tax purposes analagously to income received in foreign currencies.

I think that these are implications of the basic policy choice contained in the bill but the bill, as drafted, does not explicitly provide for these results Moreover the bill leaves unanswered questions about the proper tax treatment of interest bearing claims on gold coins such as bonds or future contracts payable in gold coins about the taxation of dealers in these coins about the determination of the proper tax basis for gold coins in estates and deferred gifts or about the tax treatment of exchanges of American Eagles for other gold coins or gold bullion.

In this connection I shall digress to the provision of the bill (Section 5) specifying two methods of payment for the purchase of American Eagles to the Treasury. In addition to payment in dollars, the bill provides for purchasing coins from the Treasury in exchange for gold bullion, which in turn could be used for the production of additional coins.

On a technical level, we would not offer objections to the latter method if the provision is desired by Congress We want to point out however, that it would entail certain additional expenses, such as assaying, melting, transporting etc., which we would have to pass on to the purchaser. We would also plan to designate only a small number of U.S. Mint facilities to handle such exchanges.

On a more fundamental level, and especially in connection with the tax issues addressed earlier, the bill sidesteps the question of the tax treatment of bullion-for-coins swaps with the Treasury. We think that the bill should be explicit in denying tax exemptions to such swaps. Bullion tendered to the Treasury in exchange for coins should be considered for tax purposes as sold for dollars at the daily price used for pricing the coins and the resulting capital gain or loss should enjoy no escape from taxation Otherwise the pertinent provision of the bill would have an effect of retroactively exempting from taxation all heretofore unrealized capital gains that have accrued to gold bullion owners during the past decade. Apart from substantial revenue losses to the Treasury, we feel very strongly that such an outcome would be very undesirable from the point of view of public policy.

Turning to other aspects of the bill, we recognize that the main thrust behind proposals for the introduction of a U.S. gold coin is to provide a form of money which people can hold and use as an alternative to money expressed in terms of dollars Undoubtedly, the experience of inflation in the United States and public dissatisfaction with the performance of fiat money as a reliable store of value have contributed to the feeling of a need for such a monetary asset. The government s monetary monopoly privilege can be justified only if it is exercised prudently. In a sense, such a new form of monetary asset would provide a kind of thermometer

which would signal to monetary authorities collective public judgment on how responsibly this privilege is being used. The Treasury does not regard unfavorably a mechanism which would perform this function.

This proposal for a gold coin is not, as is clear from reading the report and recommendations of the Gold Commission, a move toward adoption of a gold standard. There would be no official price of gold. The Treasury would not assume any commitment to convert privately or officially held dollars into gold bullion at an established price There would be no connection between U S. gold reserves and monetary policy There could be however a useful indirect linkage between the amount of U S.-held bullion used for minting coins and monetary discipline, if the public were to treat these coins as an alternative medium of exchange should the government ever reverse the current policy of restoring price stability. That is, I believe, the intent and expectation of the proponents of the legislation.

The Treasury, of course, regards the U.S. gold stock as part of national patrimony and a valuable precautionary asset Its proper size, however, is the subject of a wide variety of views, on which there was little agreement on the part of the Gold Commission. The members agreed that a zero stock" is not the appropriate size, but that no precise level for the gold stock is necessarily "right," and they opposed auction sales which were intended to dispose of Treasury holdings over some stated period of years. The Treasury fully supports the Commission s view that the Treasury retain the right to conduct transactions in gold bullion at its discretion, provided adequate levels are maintained for contingencies. The Treasury does not regard the proposal in the bill before us to be at varience with these views.

The main point to be made is that the public's appraisal of the management and performance of the U.S. economy would largely determine the demand for gold coins with the effect on the U.S. gold stock not predictable. This is not a proposal to sell a specific amount of Treasury gold, and from the point of view of the gold stock, the Secretary of the Treasury could, under existing authority, determine that the stock should be replenished through Treasury purchases. The stock might also be augmented by receipts of bullion for coins, as proposed in the bill before you. It must be kept in mind, moreover, that our stock presently totals 264 million fine troy ounces, equivalent in value at current market prices of around $110 billion; this figure may be compared with annual U.S. imports of gold coins currently averaging about 3 million ounces. Nevertheless, the concern that the demand for coins might exhaust the Treasury gold stock was identified by the Gold Commission as a matter that required more thorough exploration by the Congress.

In The Treasury's view, therefore, the proposed legislation calling for a tax-exempt Treasury-minted gold bullion coin warrants our qualified support. We would be pleased to provide the Committee our suggestions for a number of technical modifications in the bill. However, there remain some issues which need further exploration in the tax area in particular These hearings provide a valuable thrust to the full consideration of these issues, and the Treasury is prepared to work closely with the Committee in the endeavor to have them promptly resolved.

Chairman. ANNUNZIO. Thank you, Dr. Johnson, for your excellent statement, and I am happy to observe that we are going to need your help; that you are going to work closely with the Commission and with this subcommittee in its desire to attempt to resolve this problem.

I have a report from the staff of Mr. Paul. His plane is being held up by fog in North Carolina. He will not be able to be here. I have asked if he wants us to postpone these hearings, but the word I have received is he wants the hearings to proceed.

In the meantime, I ask unanimous consent that his statement be made a part of the record.

[The opening statement of Congressman Ron Paul follows:]

OPENING STATEMENT OF CONGRESSMAN RON PAUL

Mr. Chairman, I want to thank you for scheduling this hearing on H.R. 6054, the American Eagle Gold Coin Act. As you know, this bill reflects the recommendation of the U.S. Gold Commission that the Treasury resume minting bullion weight gold coins once again after a 50-year hiatus. A companion bill, S. 2330, has been introduced in the Senate but no action has been taken on it yet.

I'm pleased at the broad spectrum of witnesses who will be testifying today. Not only do we have three distinguished representatives of the Treasury Department, Mr. Johnson, Miss Buchanan, and Mr. Dreyer, but we also have a coin designer, a numismatist, a coin dealer, an economist, and an attorney who specializes in constitutional law. Their differing perspectives should give us a complete picture of what a new gold coinage would be like and what it should do.

It is my hope, as sponsor of this legislation, that this is simply the first step toward starting a new coinage program. The problems of inflation, unemployment, high interest rates, and business failures can all be traced back to a political manipulation of the monetary system. A new gold coinage and new gold standard would eliminate the cause of our present difficulties. Mr. Chairman, you are to be commended for holding this hearing. If the full Committee and the House follow through, our meeting here today will be regarded as an historic event.

Chairman ANNUNZIO. Now I would like to recess the subcommittee for about 5 minutes.

[Recess.]

Chairman ANNUNZIO. The meeting of the subcommittee will come to order.

I do not know whether Ms. Buchanan will be making a statement.

Dr. JOHNSON. No, she will not deliver a statement. She will be right back.

Chairman ANNUNZIO. Dr. Johnson, what effect will this bill have on tax revenues? Try to give me an estimate of tax revenue loss in terms of dollars.

Dr. JOHNSON. It is very difficult to give you an estimate in dollars, but I think that I can say a couple of things about the revenue issue. We do not really perceive any appreciable revenue loss associated with this bill, simply because of the way gold transactions have occurred in the past. Individuals were escaping capital gains taxation in the purchase of gold coins and bullion before. So there has been a tremendous amount of tax evasion associated with gold bullion transactions in the past. Therefore, these revenues have not been captured before.

Granting a tax exemption for capital gains, we feel, would not really produce any appreciable revenue losses. At the same time, capital gains are exempt from taxation. Capital losses would no longer be deductible under this bill, and therefore there would be

no revenue loss associated with the deduction of capital loss from the gold coins.

This bill could produce some revenues because of the disallowance of deductions and because of simply the fact that there has been a lot of tax evasion in the past.

Chairman ANNUNZIO. What is being done to crack down on the tax evaders with reference to this gold bullion?

Dr. JOHNSON. Evasion is one of the problems. It is very difficult to trace, and not much to my knowledge is being done to try to crack down on it. The IRS really does not have the resources to effectively police the problem. It does represent such a small amount of total revenues that it has never been justified to devote resources to the problem.

Dr. Dreyer, I think, has offered some good examples on how tax avoidance is undertaken in this area. And perhaps he can give you an idea of how difficult it is to trace.

Dr. DREYER. If you wish, Mr. Chairman.

Chairman ANNUNZIO. Sure.

Dr. DREYER. You can go down to Deak-Perera or to any other gold dealer and buy for cash, if you wish, a number of coins, take a receipt with your name and address, and then wait. If a year from now gold appreciates in value, just go back to them and sell it anonymously for cash; and you do not report the capital gain if you do not wish to.

However, if the price of gold falls, go back there, sell the coins, take a receipt. You will now have receipts for both the acquisition and the disposition of gold coins, you can claim a capital loss and deduct it from your income.

Dr. JOHNSON. So there are already substantial losses. Not only do people take deductions when there are losses, but often they do not report capital gains.

Chairman ANNUNZIO. In all evasions of taxes where cash is involved, it is done anonymously. But maybe we ought to prevent the sale of gold on an anonymous basis.

Dr. DREYER. I think that would have as much success as trying to prevent the sale of guns on an anonymous basis. There is just too much gold around.

Chairman ANNUNZIO. In your opinion, would the flat tax rate some of us are talking about help us?

Dr. DREYER. It depends upon how high the marginal and, therefore, average rate would be.

Chairman ANNUNZIO. There are millions of Americans in the high-income tax bracket who pay very little taxes. And the advocates of the flat tax rate feel it would increase the revenues to IRS. Would that in some way help the people who sell gold bullion? Maybe their conscience would not bother them so much and they might declare a tax if it was a flat rate.

Dr. DREYER. Mr. Chairman, I am not a specialist in public ethics. But obviously, the lower the marginal tax rate, the less incentive there would be for tax evasion.

Dr. JOHNSON. It certainly would be a reasonable carrot, and some studies have shown that lower marginal rates do reduce the amount of activity in the underground economy. So I think it certainly could not hurt.

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Chairman ANNUNZIO. Mr. Prins.

Mr. PRINS. Dr. Dreyer, why could the Congress not invoke the gambling tax situation with the gold transaction? I am sure you are not a professional gambler, but professional gamblers are only allowed to deduct losses up to the amount of profit they receive. So that if they win on the Redskins game and lose on another, they can only deduct the loss to the amount of their winnings. Why could we not do the same thing with gold, and any loss could only be deducted up to the amount of any capital gain?

Dr. DREYER. Two reasons. One is that of enforcement. It is true that there is such a provision of the tax law, but as far as I know, there are plenty of number-runners in this and other cities exactly because people want to avoid the law. Furthermore, I am personally skeptical that those individuals who are gambling and winning money, not casinos perhaps, but in various private betting establishments, if I may say so, do not declare their gambling gains.

Mr. PRINS. That is exactly the point. We do not care whether they declare their gains because they cannot declare their losses above any gained amount. So in other words, we have shut them out from taking advantage of the tax laws.

Dr. DREYER. Yes, sir, I understand. But here, the problem is that gambling is considered to be an undesirable social activity, and therefore it is treated differently for tax purposes than all other transactions or sources of income where tax treatment of gains and losses is symmetrical, that is you can deduct losses in excess of gains. If indeed you want to take a position that transacting in gold, purchases of gold, of 1 coin or 100 coins, is also an undesirable activity, then your approach would be justified; not otherwise.

Mr. PRINS. I had a very high regard for gold dealers until you testified. You have lumped them in with the "Saturday night special" people, that they sell and buy to anyone.

Dr. DREYER. That is not what I said. I am talking about the customers of gold dealers, not gold dealers.

Mr. PRINS. Well, I think the merchant makes the customer. Dishonest customers do not go to honest merchants.

Dr. DREYER. Why not? I could disclose a little dirty secret of how people can avoid taxation, dealing not in single coins but in gold futures.

Mr. PRINS. But suppose we said to the dealer, before you cash in any gold, you have to get a verifiable name and address from the customer.

Dr. DREYER. That would be the same thing as producing an ID when purchasing a gun, right?

Mr. PRINS. Once again you are lumping the gold dealers in with the gun dealers.

Dr. DREYER. What I am wondering about is whether it would be a good social policy to invade citizens' privacy in the sense of requiring them to carry an identity card in order to establish their identity when purchasing say, two gold coins. This question is beyond the pale of my competence.

Mr. PRINS. You try to get a check cashed when you have not shaved and are wearing an old shirt, and see what kind of personal identity you have to come up with.

Dr. DREYER. If you want to treat gold like any other asset, then either you do away with cash transactions, in the same way you make people buy stocks and bonds—they are not paid for with cash, and therefore, they are traceable—or you just prohibit dealing in gold for cash. Otherwise, I doubt that tax laws can be enforced.

Mr. PRINS. I think what the subcommittee is looking for is a middle ground. We are not antigold coin. But the Congress has just passed a huge tax increase, and you folks are coming in here saying, we want to come up with a whole new tax-exempt mechanism, and this subcommittee is saying, we are not sure we are ready to bite off on it.

We are looking, and I think the chairman quite appropriately has stated, we are looking for a middle ground. We are not opening up a great new tax bonanza for *x* number of people in the country.

Dr. JOHNSON. I share your concern. But this has been an issue which has been fairly well thought out. An entire commission has been devoted to this. As I mentioned in my testimony, there are some areas that still need to be ironed out.

We do acknowledge there may be some problem areas in the tax law that must be worked out in detail in tax-writing committees which Treasury would be happy to assist. But we do not perceive any vast revenue losses associated with this particular proposal. And we do basically support the spirit of the legislation for the reasons I stated before.

The distribution of the risk in this situation is totally symmetric unless you have an inflationary bias in the economy. Therefore, there is no reason to expect under this piece of legislation that there would be any net revenue loss associated with the purchase and sale of gold coins.

If you concede that there is an inflationary bias in the economy the monetary authorities are continuously inflating the currency then there could be a revenue loss associated with this proposal. But that is precisely what this legislation attempts to get at, some sort of protection from indiscretions by the monetary authorities. I think that is the purpose of the legislation.

Chairman ANNUNZIO. I will get on to another question. But I liked your phrase, Dr. Dreyer. You said "socially acceptable."

Dr. DREYER. About what?

Chairman ANNUNZIO. About the gold bullion dealers and the traders.

Dr. DREYER. No; I just said——

Chairman ANNUNZIO. Gambling, what phrase did you use?

Dr. DREYER. I said, unless you want to treat purchases and sales of gold coins the way you treat gambling—unless you want to discourage them by using the Tax Code—I can see no reason for treating gains and losses asymmetrically the way you treat gains and losses from gambling.

Chairman ANNUNZIO. I am not convinced, but I like that phrase, "socially acceptable," and "not socially acceptable."

Dr. DREYER. Well, it is clear that the Tax Code has a special provision regarding income from gambling. Income from gambling is meant to be discouraged, and the tax laws are used to accomplish

this goal because they prevent people from deducting their losses from gambling.

Chairman ANNUNZIO. The point I am trying to make, if I heard you right—and I do not want the reporter to read it back—is that where you have legalized gambling in Nevada and where you have legalized gambling in New Jersey, you cannot say it is not socially accepted. It is. They are doing a big business. You have, I think, more gamblers in this country betting on everything than you do bullion dealers.

Dr. DREYER. I would not know, sir. But I think that the apparent revenue loss is an optical illusion.

Chairman ANNUNZIO. Well, let us hope you are correct. But it is something that the subcommittee must look at.

Dr. DREYER. Sure.

Dr. JOHNSON. I agree completely.

Chairman ANNUNZIO. Dr. Johnson, would this bill have an effect on our balance-of-payments deficit, if you know? And if so, how much? You must understand, you are before a House banking subcommittee. We are interested in deficits. It is our business.

Dr. JOHNSON. That is right. I think, if anything, the bill might make gold coins attractive to gold purchasers internationally, and I do not see that it would produce a balance-of-payments problem. If anything, it might produce the reverse of that.

I will defer that, too, to Dr. Dreyer, if he has any specific comment.

Dr. DREYER. No; I don't. I have not tried to estimate the balance-of-payments effect. I do not think it is possible to estimate it at this point. But it is clear that there would be some substitution of American Eagles for krugerrands, and to this extent, the krugerrands, maple leaves, and other foreign coins would be partially at least, displaced. Thus, the outflows of funds, the payments for foreign coins would drop. I don't believe I can give you an intelligent guess regarding the extent of this drop.

Chairman ANNUNZIO. Dr. Johnson, what do you estimate would be the demand for these coins?

Dr. JOHNSON. It is difficult to say, really. I think it does depend upon the performance of the economy. As I mentioned earlier, I think in a noninflationary economy, there probably would not be much demand for the coins. This is just my personal opinion since the risks are equally distributed. There is no reason to believe that there would be a large demand other than for collectors and the like.

But in an economy which is inflationary, certainly gold coins are a way of protecting the purchasing power associated with transactions. I think there could be a large demand for coins if the monetary authorities were to let inflation rekindle. Otherwise, I do not perceive there being a dramatic demand as long as there is confidence in the currency and fiat money is accepted in normal transactions.

As a matter of fact, as far as the characteristics of the coins relative to paper currency, I would think people would prefer currency in a noninflationary environment. Otherwise, being a store of value in inflationary times, there should be increased demand. Exactly how much, I really could not say.

Chairman ANNUNZIO. First, I want to welcome Mr. Hansen from Idaho this morning. He is a member of the full committee.

Would you like to say something?

Mr. HANSEN. I appreciate that, Mr. Chairman. I will be very brief.

I am not a member of the subcommittee. Would that I were. But we are next door in another subcommittee meeting right now on national usury proposals, in which I know you are also interested.

But I am a sponsor of this legislation. And our colleague, Mr. Paul, was inadvertently detained on an airplane, and he asked that I come by. I also flew all night to get here. Some of our people flew from out of town, you know how that is, Mr. Chairman. So I came to represent him as best as possible for a few moments as one of the cosponsors of this legislation until he is able to be here for himself to express his interest in this.

And we appreciate the witnesses we have here today. And, Mr. Chairman, I appreciate your recognition of me for this statement. Thank you.

Chairman ANNUNZIO. We are happy to have you for a few moments this morning. As you know, in our full Banking Committee we try to hear both sides and extend all of the courtesies we can to each other when we can. And I am delighted to have you here.

I hope on the usury hearings you take into full consideration the rotten job done in the Senate last Friday. Again, here is a bad situation: legislation passed in 3 minutes that can affect usury interest rates in this country without a hearing—without a hearing, let alone debate. Without a hearing.

So these are the reasons we must not rush through legislation if we are going to maintain what little respect we have left from the American public.

Dr. Johnson, there are those who advocate that the United States take steps against South Africa for its apartheid policies. If this bill reduces the sale of South African krugerrands in the United States, would that be a useful signal to send to South Africa?

Dr. JOHNSON. I am honestly not prepared to talk about our foreign policy, and I do not consider myself competent to comment on that.

Certainly, there is the possibility that there would be some substitution, as Dr. Dreyer mentioned, of these coins for krugerrands. Whether that meets our foreign policy objectives, I have no way of commenting on.

Chairman ANNUNZIO. A number of other countries, Dr. Johnson, including England, Canada, and Mexico, issue gold coins. Should the United States not follow their example?

Dr. JOHNSON. Well, I think if our intention is to produce another gold medallion-type coin, probably so. But I do not think that is the intent of the Gold Commission.

I think the Commission's purpose was to create a preferred instrument that would be allowed to circulate as an alternative to fiat money. I do not think that this coin would be attractive without the specific characteristics recommended by the Gold Commission. It would be like any other gold coin distributed by Mexico and

the Canadians and South Africa unless it were given preferential treatment some way.

Mr. ANNUNZIO. Ms. Buchanan, could the mint meet the demands for these coins with its present personnel and facilities?

Ms. BUCHANAN. Mr. Chairman, the mint would need an increase in staff. Of course, the number would depend upon the demand. We estimate approximately 25 to 35 people, depending upon the demand. With the present facilities, we would have to enhance them to some degree if the conversion portion of the bill were to remain there. However, this could be done, and we feel that these costs, of course, would be passed along to the consumer, so there would be no additional expense to Treasury but that we could handle the program.

Chairman ANNUNZIO. We have a mint located in Philadelphia, a mint located in Denver, a mint located in San Francisco, and a mint located at West Point. Four mints.

Ms. BUCHANAN. That is correct.

Chairman ANNUNZIO. Some 10 years ago, we were having a coin shortage, and I introduced a bill, I think, in two different sessions to establish a mint in the Middle West, preferably Chicago, where I come from. [Laughter.]

Could you give me an idea whether conditions have changed since 10 years ago when I first introduced the legislation?

Ms. BUCHANAN. Sir, the situation now is that——

Chairman ANNUNZIO. And I want the record to show that the reason the legislation was introduced was because I felt Chicago, being the second largest financial center in the United States, and with the cost of shipping in bulk like we do, coins from Philadelphia, Denver, and so forth, the cost was so great at that time and we were running into such shortages, I had statistics to show that the reduction in the cost would more than adequately pay for the minting. Has that situation changed any? Is the pressure still on from the Midwest, where they were short of coins of all types, nickels, dimes, pennies?

Ms. BUCHANAN. The situation presently is there continues to be increased demand, greater than supply for pennies only. We have quite substantial inventories of the other coins, so there has been no complaint by anybody that I am aware of, of any shortages in those other coins. It is just the penny.

With respect to the possibility of going to a fifth mint, at present we have a plan, or we are looking at a plan for 5 and 10 years ahead, and there does not seem to be any need to go to a fifth mint at this time, simply because of renovations. The modernization plan we are working on now allows us to mint more pennies with more advanced equipment rather than having to go to another facility, sir.

Chairman ANNUNZIO. Our population keeps increasing in the United States. Our unemployment rate keeps going up. If the unemployment rate goes any higher, we will not need that many coins. We can perhaps shut down a mint in lieu of acquiring a fifth mint. I have no further questions.

Mr. Hansen.

Mr. HANSEN. Will the Chair indulge me for a couple of brief questions, Mr. Chairman?

Chairman ANNUNZIO. Sure.

Mr. HANSEN. As I understand it, you basically support the thrust of this bill, Dr. Johnson.

Dr. JOHNSON. That is correct.

Mr. HANSEN. And you do have some refining amendments that you note. And also, as I understand, you are not real pleased with the idea of having the smaller denominations such as the quarter and the tenth. Is that correct?

Dr. JOHNSON. Yes. I think the problem there is the production cost, the share of the production cost that would be inflicted on holders of these low-denomination coins. As I mentioned in my statement the production cost component of the value of a quarter-ounce coin was 40 percent, which is substantial.

Mr. HANSEN. Do you not think the consumer, though, could well be the judge of that, to a degree?

Yet, when we are talking about consumers, Mr. Chairman, we are talking about what people can afford, and there is a considerable difference in cost between a tenth and a full ounce. And even if they use it for such things as jewelry, it still constitutes a form of gold ownership, and I am wondering if it would really present that big a problem with you.

Dr. JOHNSON. There is a production efficiency issue here, and I will defer to the Treasury to comment on that.

Ms. BUCHANAN. Sir, we would have no difficulties in actually manufacturing or producing these coins. The concern was, as Dr. Johnson pointed out, that they tend to be, at least history indicates, they tend to be used for such things as jewelry and there would be a substantial markup percentagewise over and above that which you would see in your half-ounce or your ounce. So we wanted to bring that to the attention of the Commission, but we are certainly capable of producing these coins if that would be the desire of Congress.

Mr. HANSEN. So all you are doing is alerting them to the fact that there would be a proportionately higher cost, maybe appreciably higher, which may not be totally acceptable; but on the other hand, if I read consumerism right in this country, which is a little different than the hobby a few select people have made with krugerrands and so forth, it may be that we misread the tendency of the American people to buy the smaller ones for whatever purpose even though they do cost disproportionately more.

Ms. BUCHANAN. Absolutely.

Mr. HANSEN. I notice, Mr. Chairman, that the gentleman for whom I am acting as surrogate, has appeared. And I would like to advise the gentleman that the testimony of the Government witnesses I think has been completed. The Chair has pretty much completed his questions, and I was asking a couple of questions in an area where they felt there would be some question on the smaller denominations, the practicality of that.

And I think, Mr. Chairman, I will defer to the gentleman from Texas. And I thank you.

Mr. PAUL. Thank you very much. I must apologize for being late. I was in an airport, and there was fog.

Chairman ANNUNZIO. I understand.

Mr. PAUL. Have you been there before?

Mr. CARMAN. He is from Chicago. [General laughter.]

Chairman ANNUNZIO. The fog does not hold us up, but the wind does.

Mr. PAUL. I want to express my appreciation first to the chairman for holding the hearings. He is truly a man of his word. He said he would hold hearings for this bill, and he has. I deeply appreciate that. I appreciate the gentleman from Idaho filling in for me as well. I do not think I have any specific questions right now. I think I understand generally that you do in many ways endorse the idea of a coin, but not the smaller coins. Is that generally the testimony?

Dr. JOHNSON. We support the general thrust of the legislation, with some reservations about specific tax issues and the denomination.

Mr. PAUL. Mr. Chairman, I do not have any specific questions right now.

Chairman ANNUNZIO. I have one more question of Dr. Johnson. On page 4, the third paragraph, "Should the Congress decide against the tax exemption for the American eagle, the Treasury recommends that the entire proposal be dropped." Are you saying that unless there is an exemption, you do not want a gold coin.

Dr. JOHNSON. Yes; I think that is correct. Our point simply is that we do not really need another gold medallion program. The Treasury does not efficiently provide a gold medallion relative to the private sector, and we think in the name of preserving taxpayer dollars that this could be better provided through some other avenue.

Now, the one thing we do support is the Olympic coin program. We are on the record for that, and we have very strong feelings about it. However, extending production to another gold medallion similar to the Olympic coin would simply be an extension of the current program.

Chairman ANNUNZIO. Well, I thank you for your testimony this morning, Dr. Johnson, Dr. Dreyer, and Ms. Buchanan. I appreciate your being with us. The record will be distributed to the members so that they can familiarize themselves with your testimony. Thank you very much.

I now call the members of the panel: Mr. Luis Vigdor, vice president, Manfra, Tordella & Brookes, New York; Mr. Edwin Vieira, an attorney, Washington, D.C.; Dr. Joseph Salerno, professor of economics, Rutgers University, New Brunswick, N.J.; Mr. Adna G. Wilde, Jr., president of the American Numismatic Association of Colorado Springs, Colo.; and Mrs. George S. Busiek, coin designer, from Dallas, Tex.

I welcome all of you before the subcommittee this morning. I have copies of your prepared statements. I ask unanimous consent that your entire statements be made a part of the record, and you can each proceed in your own manner for approximately 5 minutes, if you can consolidate your remarks.

I will start with Mrs. Busiek from Dallas, Tex.

STATEMENT OF MRS. GEORGE S. BUSIEK, COIN DESIGNER, DALLAS, TEX.

Mrs. BUSIEK. Mr. Chairman, ladies and gentlemen, I am deeply grateful and honored to have this opportunity to speak to you on behalf of the coin design I have offered for use on the American eagle gold coin proposed by H.R. 6054, introduced by the Honorable Congressman Ron Paul of Texas. I am truly convinced that you, this distinguished body, and your colleagues in Congress possess the wisdom and courage to lead our Nation to a solution to this complex economic crisis, and as in the case of a critically ill patient, we trust the physician to perform the necessary surgery and administer the proper medication.

It is a proven fact, however, that the will to live and the strength to survive comes from the spirit within, and this desire can be greatly influenced and nurtured by a loving, caring family and friends. This is why I am here today. You are the leaders, and I am simply a citizen of this great Nation. May this humble symbolic tribute in a place of high and lasting significance for all the world to see represent you, our leadership, and all the caring citizens.

As the painful economic recovery process begins, this symbol can be a means of reaching out a hand to a lonely senior citizen, a man without a job, or an angry teenager questioning the future, to say, you are top priority, we care about you, take heart for there is hope. That tiny space on the surface of a solid gold coin could carry a powerful message. I urge you to seize this timely opportunity to give honor and encouragement to our families, senior citizens, and young people as well, and as a timeless message of hope and strength, unity of purpose, and optimism for the future. That is our great heritage, and an example for the entire world.

I would like to offer this design as a gift to the U.S. Government on a totally unconditional basis, with no desire for remuneration or personal recognition. This design is accompanied by letters of endorsement from a sample bipartisan cross section of distinguished citizens in order to show the enthusiastic reaction from the people it will represent.

In addition, I have been told by bankers and numismatic experts that the design symbolism on a U.S. gold coin would greatly enhance its marketability and cause it to be highly sought after as an investment, collector's item, and a gift for presentations and special occasions such as birthdays, christenings, anniversaries, bar mitzvahs, graduations, Mother's Day, Father's Day, Christmas, and so forth.

I am making this proposal to you as a private citizen, and my motivation is purely one of patriotism and a desire to be of service in affirming and encouraging the people of our great Nation. As you well know, people are much more likely to participate in a process they really feel a part of, so as an extremely important national election year, let this dignified and history-making gesture of statesmanship be an assurance to the citizens of your commitment to working diligently for their best interests, in order that they may have pride and confidence in themselves, in you, and in the United States of America.

Thank you very much for the privilege of this opportunity.

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Chairman ANNUNZIO. Thank you, Mrs. Busiek, for your statement and your outstanding contribution. I commend you highly for a wonderful design and for all of the work and effort you have put in, the numerous organizations you have contacted, all of the endorsements. You are an example of what all of our citizens should be doing. You are thinking about the United States of America, and I compliment you for that.

Mrs. BUSIEK. Thank you very much.

[Mrs. Busiek's prepared statement follows:]

Testimony Offered by
Mrs. George S. Busiek
Tuesday, September 28, 1982

Subject: H. R. 6054, the American Eagle
Gold Coin Act of 1982
Section II - The reverse design

Mr. Chairman, Ladies and Gentlemen,

I am deeply grateful and honored to have this opportunity to speak to you on behalf of the coin design I have offered for use on the AMERICAN EAGLE GOLD COIN proposed by H. R. 6054, introduced by the Honorable Congressman Ron Paul of Texas.

I am truly convinced that you, this distinguished body and your collegues in Congress, possess the wisdom and courage to lead our nation to a solution of this complex economic crisis and, as in the case of a critically ill patient, we trust the physician to perform the necessary surgery and administer the proper medication. It is a proven fact, however, that the will to live and the strength to survive comes from the spirit within and this desire can be greatly influenced and nurtured by loving, caring family and friends.

That is why I am here today. You are the leaders and I am simply a citizen of this great nation. May this humble symbolic tribute in a place of high and lasting significance for all the world to see, represent you, our leadership, and all the caring citizens. As the painful economic recovery process begins, this symbol can be a means of reaching out a hand to a lonely senior citizen, a man without a job, or an angry teenager questioning the future, to say, "you are top priority, we care about you, take heart for there is hope!"

That tiny space on the surface of a solid gold coin could carry a powerful message. I urge you to sieze this timely opportunity to give honor and encouragement to our families, senior citizens and young people as well as, a timeless message of hope and strength, unity of purpose and optimism for the future that is our great heritage and example for the entire world.

I would like to offer this design as a gift to the United States Government on a totally unconditional basis with no desire for renumeration or personal recognition.

This design is accompanied by letters of endorsement from a sample bipartisan cross section of distinguished citizens in order to show the enthusiastic reaction from the people it will represent. In addition, I have been told by bankers and numismatic experts that the design's symbolism on a U.S. gold coin would greatly enhance it's marketability and cause it to be highly sought after as an investment, collector's item and a gift for presentations and special occasions such as birthdays, anniversaries, Bar Mitzvahs, graduations, Mother's Day, Father's Day, Christmas, etc.

I am making this proposal to you as a private citizen and my motivation is purely one of patriotism and desire to be of service in affirming and encouraging the people of our great nation.

It is my pleasure to place this design into the hands of the most capable and talented Ms. Elizabeth Jones, the Chief Sculptor and Engraver of the U.S. Mint, for further development if, at which time it is indeed adopted as the reverse design for the American Gold Coin.

Thank you very much for the privilege of this opportunity.

Copies of the following letters of endorsement
are available:

I. Political Organizations:

Dallas County Democratic,Chairman
Dallas County Republican,Chairman
Dallas County Young Democrates, President
Dallas County Young Republicans, President
Republican National Committee, Chairman
Govenor of Texas, Bill Clements
Mayor of Dallas, Jack Evans

II. Civic and Religious Groups:

Boy Scouts of America,
National Eagle Scout Assoc., Director
AF of L CIO, Dallas County Director
Highland Park Independent School District, Superintendent
Dallas Museum of Natural History, Director and Curator
PWL, Dallas County (minorty political organizations)
Catholic Diocese of Dallas, Bishop of Dallas
The Reverenc Canon,Episcopal Diocese of Dallas
Highland Park Presbyterian Church Rev. Clayton Bell
Jewish Federation of Greater Dallas, Ex. Director
Dallas Theological Seminary Dean
Christian Concern Foundation

III. Distinguished Citizens:

Trammell Crow
Nelson Bunker Hunt
Dan L. Williams, Southland Financial Corp.
Jodie Thompson Southland Corp.
Bill Mead, Cambell Taggart
Lee R. Slaughter Jr
Mary Crowley Home Interiors, Inc.
George L. Clark Mercantile National Bank, Chairman of the Board
Roy C. Coffee, Jr.
Mrs. William A. Custard
Dr. Henry B. Mobley

and numerous others

Chairman ANNUNZIO. Our next witness is Mr. Wilde, president of the American Numismatic Association. Your entire statement will be made a part of the record, Mr. Wilde. You may proceed in your own manner.

STATEMENT OF ADNA G. WILDE, JR., PRESIDENT, AMERICAN NUMISMATIC ASSOCIATION

Mr. WILDE. Thank you, Mr. Chairman, and members of the Subcommittee on Consumer Affairs and Coinage.

I am pleased to be here this morning to express the views with respect to the proposed H.R. 6054, the American Eagle Gold Coin Act of 1982.

The American Numismatic Association is an educational, nonprofit organization. It is the largest and most active numismatic body in the world. The association offers membership to people who have a sincere interest in numismatics, whether they collect coins, paper money, tokens, metals, whether they are advanced collectors or those with a general interest in the subject even without being a collector.

The association was founded in 1891, and has more than 40,000 members from every State in the Union and many foreign countries. It was chartered for 50 years by an act of Congress dated May 9, 1912, renewed in perpetuity by an act of Congress on April 10, 1962, and is a mutual organization for the benefit of its members.

The American Numismatic Association is headquartered on the campus of Colorado College. The association employs a staff of 59, many of whom are experts in the field of numismatics. The governing body is the board of the American Numismatic Association, consisting of seven governors elected at large, a vice president, and president. I serve as the president of that association, and it is in this capacity that I appear before you today.

H.R. 6054 is an act that will afford American citizens the opportunity to purchase gold in quantities that any person can afford in lieu of purchasing like amounts from foreign sources. Annually, millions of dollars are added to the imbalance of payments through the purchase of South African krugerrands, Canadian maple leafs, Mexican centennarios, and even the People's Republic of China is preparing to issue a gold noncirculating coin for sale in the United States. The new American Eagle Gold Coin Act of 1982 will help stem the flow of American dollars overseas.

With but one or two points of concern, I wholeheartedly support the passage of this legislation. My prime area of concern is in the name "eagle". The act calls for the eagle to have a gold content of one fine troy ounce, and the coin will approximate the size and design of the 1908 double eagle. I feel that there will be an unnecessary confusion in giving the name "eagle" to a coin that has always been known by size, weight, and denomination as a double eagle. The name "eagle" has been synonymous with the $10 gold piece since the denomination was introduced in 1795, yet this legislation calls for the $10 gold piece now to be called a half-eagle.

I strongly suggest that serious consideration be given to the retainage of the name "double eagle" for the 1-ounce piece and

"eagle" for the half-ounce piece, which it has been known by since the establishment of the U.S. Mint.

Similarly, the proposed quarter-ounce piece approximates the size of the old U.S. half eagle, and should be so named. The proposed one-tenth eagle is very close in size and weight to the old U.S. quarter-eagle and should be so recognized.

Another minor point of concern is that section II(c)(1) calls for the obverse side of the design of the 1908 double eagle. I would like to point out that on this 1908 double eagle the ring of stars that composes the border of the design number only 46. It was not until 1912 that the design was changed to accommodate 48 stars. We should not overlook this fact, and the number should now be increased to 50 to represent all of the States in the Union.

In regard to the lesser weights, the reduction in size and design points out the need of the Treasury Department to enforce or have enacted stronger legislation prohibiting the reproduction of U.S. coin design.

There is offered today in novelty shops and through advertisements in Sunday supplements reproductions of the $20 gold piece in miniature form. Some of these are reproduced in base metal that is gold plated, and others purport to be in fine gold without fineness actually being indicated. This could lead to confusion after the American Eagle Gold Coin Act of 1982 is enacted and the gold bullion coins made available. Unfamiliarity with the issue may lead unscrupulous promoters to pass off their imitations on unsuspecting buyers.

Since 1982 represents the bicentennial of the Great Seal of the United States, it is most appropriate that the design appear on the reverse of this new coin. However, should consideration be given to a change in design in future years or for other denominations, the American Numismatic Association stands ready to furnish a panel of experts to serve on any design committee. Should the selection of future design rest with the Commission of Fine Arts, we would like to request serious consideration to be given to the naming of a qualified numismatist to this Commission. All too often in the past coinage designs have been selected without consideration to numismatic and technical prerequisites.

I support the legislation calling for the coins to be dated annually and have an attractive design with an appealing motif.

I would be remiss not to express support for section III, which calls for the coins to be delivered to banks or other institutions and retailers for distribution and sale to the public. The Government cannot successfully distribute these if the sale is to be in the same manner as the American Art Medallions which were struck by the U.S. Mint in weights of one-half and 1 ounce but sold through a most cumbersome procedure which involved phone calls, visits to the post office, and delays in delivery of up to 8 weeks after purchase. I cannot emphasize enough that to be successful the sale and delivery of the gold coins must be simultaneous.

The American Numismatic Association has four recommendations: One, that the proposed coins be named the same as their predecessors were once in circulation, double eagles, eagles, half eagles, and quarter eagles; two, that the proposed design be modified to recognize the 50 States of the Union, not 46, as in the origi-

nal design, and that in the future when designs are considered, the American Numismatic Association be consulted, and that a qualified numismatist be considered as a member of the Commission of Fine Arts; three, that stricter regulation and enforcement thereof be enacted prohibiting the reproduction of U.S. coin designs in any size; and four, that the sale and distribution of coins under the proposed legislation not be encumbered with procedures similar to those necessary to purchase gold under previous legislation enacted under the American Arts Commemorative Medallion Series.

Thank you, Mr. Chairman, for the privilege to speak for the American Numismatic Association and collectors of the United States. We stand ready to support this legislation.

[Mr. Wilde's prepared statement, on behalf of the American Numismatic Association, follows:]

STATEMENT OF ADNA G. WILDE, JR., PRESIDENT OF THE AMERICAN NUMISMATIC ASSOCIATION, AT A HEARING BEFORE THE HOUSE BANKING SUBCOMMITTEE ON CONSUMER AFFAIRS AND COINAGE AT WASHINGTON, D.C., ON THE 28th OF SEPTEMBER, 1982.

Mr. Chairman and members of the Committee on Banking, Housing and Urban Affairs, I am pleased to be here this morning to express my views with respect to the proposed H.R. 6054 American Eagle Gold Coin Act of 1982.

The American Numismatic Association is an educational and non-profit organization. It is the largest and most active numismatic body in the world. The association offers membership to persons who have a sincere interest in numismatics, whether they collect coins, paper money, tokens, or medals; whether advanced collectors or those who have a general interest in the subject without being collectors. The association was founded in 1891 and has more than 40,000 members from every state in the Union and many foreign countries. It was chartered for 50 years by an Act of Congress, dated May 9, 1912; renewed in perpetuity by an Act of Congress, on April 10, 1962; and is a mutual organization for the benefit of its members.

The American Numismatic Association is headquartered on the campus of Colorado College in Colorado Springs, Colorado. The association employs a staff of 59, many of whom are experts in the field of numismatics.

The governing board of the American Numismatic Association consists of seven governors, elected at large, and a vice-president and president. I serve as the president of the association and it is in this capacity that I appear before you today.

H.R. 6054 is an act that will afford American citizens the opportunity to purchase gold in quantities that any person can afford, in lieu of purchasing like amounts from foreign sources. Annually, millions of dollars are added to the imbalance of payments through the purchase of South African krugerrands, Canadian maple leafs, Mexican centennarios, even the People's Republic of China is preparing an issue of gold, non-circulating coins for sale in the United States. The new American Eagle Gold Coin Act of 1982 will help stem the flow of American dollars overseas.

With but one or two points of concern, I wholeheartedly support the passage of this legislation.

My prime area of concern is in the name "eagle." The act calls for the eagle to have a gold content of one fine troy ounce and the coin will approximate the size and design of the 1908 double eagle. I feel that there will be

unnecessary confusion in giving the name "eagle" to a coin that has always been known by size, weight and denomination as a "double eagle." The name "eagle" has been synonymous with the ten dollar gold piece since the denomination was introduced in 1795. Yet, this legislation calls for the ten dollar gold piece to now be called a "half eagle."

I strongly suggest that serious consideration be given to the retainage of the name "double eagle" for the one ounce piece, and "eagle" for the half ounce piece which it has been know by since the establishment of the United States Mint. Similarly, the proposed quarter ounce piece approximates the size of the old U.S. "half eagle" and should be so named. The proposed "one-tenth eagle" is very close in size and weight to the old United States "quarter eagle" and should be so recognized.

Another minor point of concern is that Section II c. 1 calls for the obverse side to have the design of the 1908 double eagle. I would like to point out that the ring of stars that compose the border of this design numbers only forty-six and it was not until 1912 that the design was changed to accommodate forty-eight stars. We should not overlook this fact and the number should be increased to fifty to represent all the states in the Union.

In regard to the lesser weights, the reduction in size and design, points out to a need by the Treasury Department to enforce, or have enacted, stronger legislation prohibiting the reproduction of United States coin design.

There is offered today in novelty shops, and through advertisements in Sunday supplements, reproductions of the twenty-dollar gold piece in miniature form. Some of these are reproduced in base metal that is gold plated and others purport to be fine gold without any fineness actually being indicated. This could lead to confusion after the American Eagle Gold Coin Act of 1982 is enacted and the gold bullion coins made available. Unfamiliarity with the issue may lead unscrupulous promoters to pass off their imitations on unsuspecting buyers.

Since 1982 represents the bicentennial of the Great Seal of the United States, it is most appropriate that this design appear on the reverse of this new coin. However, should consideration be given to a change in design for future years, or for other denominations, the American Numismatic Association stands ready to furnish a panel of experts to serve on any design committee. Should the selection of future design rest with the Commission of Fine Arts, we

would like to request serious consideration be given to the naming of a qualified numismatist to this commission. All to often, in the past, coinage designs have been selected without consideration to numismatic and technical prerequisites.

I support the legislation calling for the coins to be dated annually, and have an attractive design with an appealing motif.

I would be remiss not to express support for Section III which calls for the coins to be delivered to banks, other institutions and retailers for distribution and sale to the public. The government cannot successfully distribute these if the sale is to be in the same manner as that of the American Art Medallions which are struck by the United States Mint in weights of one half ounce and one ounce, but sold through a most cumbersome procedure that involves phone calls, visits to the post office, and delays in delivery up to eight weeks after purchase. I cannot emphasize enough, that to be successful, sale and delivery of these gold coins must be simultaneous.

RECOMMENDATIONS

1. That the proposed coin be named the same as their predecessors that were once in circulation, "double eagles," "eagles," "half eagles," and "quarter eagles."

2. That the proposed design be modified to recognize the fifty states in the Union and not forty-six as with the original design, and that in the future, when designs are considered, that the American Numismatic Association be consulted and that a qualified numismatist be considered as a member of the Commission of Fine Arts.

3. That stricter legislation, and enforcement thereof, be enacted prohibiting the reproduction of United States Coin design in any size.

4. That the sale and distribution of the coins under this proposed legislation not be encumbered with procedures similar to those necessary to purchase gold under previous legislation enacted under the American Arts Commemorative Medallion series.

Thank you for the privilege to speak for the American Numismatic Association and collectors of the United States. We stand ready to support this legislation.

Adna G. Wilde, Jr.

Adna G. Wilde, Jr., President
American Numismatic Association

Chairman ANNUNZIO. Thank you, Mr. Wilde, for your very constructive statement.

Our next witness is Dr. Joseph Salerno, professor of economics, Rutgers University, New Brunswick, N.J. Dr. Salerno, it is a pleasure to have you with us this morning, and you may proceed in your own manner for about 5 minutes.

STATEMENT OF DR. JOSEPH SALERNO, PROFESSOR OF ECONOMICS, RUTGERS UNIVERSITY

Dr. SALERNO. Mr. Chairman and gentlemen of the subcommittee, in my view the American Eagle Gold Coin Act is an extremely timely piece of legislation that may well serve to mitigate the worst effects of a future inflationary destruction of the U.S. monetary system.

The merest reference to the possibility of runaway inflation afflicting the American economy tends to be summarily dismissed as unwarranted or even irresponsible and alarmist. Nevertheless, I believe that reflection on prevailing economic and political realities reveal that there are forces now operating which may point the U.S. economy down the path to hyperinflation.

Before briefly enumerating considerations which lead me to this conclusion, I think it is important to understand the elementary lesson of theory and history that paper fiat money whose supply is controlled by a Government monopoly, as the case with our U.S. dollar today, harbors a built-in tendency to inflationary self-destruction. The reason for this is that inflation, which is simply the creation of additional quantities of paper money, provides the Government with a relatively costless and painless means of increasing its revenues, and thereby expanding its spending programs so beloved by special interest groups and constituencies whose support is necessary for the incumbent government to remain in power.

More importantly, since the process of inflation under modern monetary and financial institutions is obscure and little understood by the public at large, the Government is able to shift the blame for the ever-shrinking purchasing power of the monetary unit and the corresponding erosion of people's real incomes and savings from itself to other groups and circumstances beyond its control.

These scapegoats, unfortunately, are all too familiar: OPEC, monopolistic corporations, powerful labor unions, spendthrift consumers, unfavorable weather conditions, and so on. On the other hand, increased taxation, which is the alternative to inflationary financing of expanding Government-spending programs, is much less popular with the electorate as a whole precisely because it is obvious that gains won by the favored groups are directly financed by the higher taxes being extracted from the pockets of the rest of the population.

I do not think it is unreasonable to infer from this analysis that government is an inflationary institution and to grant to such an institution the legal monopoly of issuing money is tantamount to institutionalizing permanent inflation. Indeed, this is the lesson repeatedly illustrated in history, from ancient China to the modern market-oriented economies of the West. All have suffered through inflationary episodes to some degree or another.

As a very respected scholar in residence at the American Enterprise Institute, William Fellner, has mentioned, there is "substantial element of truth involved in the assertion that fiat money has been misused in all history, has always led to the corruption of the currency."

Without going into detail, I support a gold standard. However, considering the proposals coming out of the U.S. Gold Commission, it appears that the possibility of restoring such a standard is remote. Therefore, I believe that the American Eagle Gold Coin Act, while it does not represent a restoration of a genuine gold standard which will terminate permanent inflation, does provide a vital form of insurance against the worst effects of a paper fiat money regime. It does this by returning a part and possibly all of the Government gold hoard to private hands in a form conducive to use as alternative money, that is, in the form of coins.

It is precisely in a hyperinflationary scenario, the scenario of a runaway inflation, that the American Eagle Gold Coin Act will prove vitally useful. It will provide people with a readily available alternative currency to the hyperinflated paper dollar. As hyperinflation proceeds, individuals will begin to utilize the coins first as a means of payment stipulated in their credit contracts, and later as money in current transactions. I see that enormous losses in efficiency, production, and living standard which typically attend the retrogression into barter after runaway inflation will be partially mitigated.

In fact, it was the ready availability of the precious metals and the gold-backed dollar in 1923 which prevented the German inflation from being a much worse calamity than it actually turned out to be, but let me mention very quickly that the reasons why I feel we are on the verge of a runaway inflation include the large deficits looming before us which will increase by some estimates to $155 billion in 1985; also, to the recent movement and pressure put on the Fed to push down interest rates by "loosening credit." Bills have been recently introduced in Congress which would mandate that the Fed eschew any further attempts to control monetary aggregates and to implement a policy to push down interest rates. I feel this is extremely inflationary.

Third, I believe that with the possibility of a collapse of the international and domestic financial systems looming, that the Fed will, given such an occurrence, bail out the international financial system, and this again will be another factor adding to inflation, and I see these things developing possibly in the next few years, and I think it is important to get this legislation implemented.

Thank you.

Chairman ANNUNZIO. Thank you, Dr. Salerno.

Our next witness is Mr. Edwin Vieira, Jr., attorney, Washington, D.C. Mr. Vieira, you may proceed in your own manner.

STATEMENT OF EDWIN VIEIRA, JR., ATTORNEY, WASHINGTON, D.C.

Mr. VIEIRA. Thank you, Mr. Chairman.

I appreciate the opportunity to testify this morning in favor of H.R. 6054.

For the information of the subcommittee, I am an attorney specializing in legal economic problems involving issues of constitutional law, and for some time recently I have been interested in monetary matters, and earlier this year I submitted to the Gold Commission a study on the constitutional law of money.

From the perspective of monetary economics, H.R. 6054 represents the first practical step in what hopefully will be the rapid and complete transition of this Nation's monetary system from one based on fiat currency with legal tender character but irredeemable either in gold or silver to one based upon coins of precious metals and from one in which a quasi-governmental central bank manipulates the quantity and quality of money according to political expediency to one in which the people of the United States themselves determine the quantity of money they require according to economic reality, secure in the knowledge that the quality of that money is a fixed attribute of its own natural properties and not the result of the policies of politicians and pressure groups.

From the perspective of monetary law, which is my concern, H.R. 6054 represents the first step in what hopefully will be a series of congressional acts reaffirming and reapplying basic constitutional principles, the neglect of which by the National Government since 1933 has led inexorably to the monetary chaos that now threatens this country with financial collapse.

I would like to talk about three interrelated aspects of the bill. First, the legal economic nature of the proposed gold coinage, second, the constitutional stature of these coins, and third, the practical effect of the new coinage within the existing monetary system.

First, by removing American eagle gold coins from the reach of national, State, and local taxation, section VI of the bill unequivocally defines them as money in contradistinction to metals or commemorative pieces or various other commodities that may have been fabricated of precious metals but were not intended to circulate as a medium of exchange in commerce. The principles that all forms of this Nation's money should maintain parity of market exchange value among themselves has been a basic element of congressional policy since before the first Coinage Act in 1792.

H.R. 6054 merely applies this principle to American eagles. I say merely because it is a relatively simple legal principle with very important economic effects in terms of the use of these coins as a medium of exchange. By mandating the coinage of American eagles in gold and permitting the marketplace to determine their value, quantity, and acceptability in commerce, sections II, IV, and V of the bill unequivocally satisfy the standards for money under Article 1, Section VIII, Clause 5 of the Constitution.

That is quite important, because in essence section II of the bill is a policy statement that reverses the rather ill-advised and quite illegal policy that from 1933 to 1968 gradually replaced constitutional money of the precious metals, gold and silver, with legal tender, fiat currency of irredeemable paper.

Section II(a)(1) of the bill establishes the fine gold content of the coins in units of weight, the constitutional value of the coins under article 1, section VIII, clause 5. However, section IV (a) leaves to determination by the market at prices according to the coin's rela-

tive weight, according to gold bullion sold on the commodity exchange and so on.

I will not get into a debate with the gentleman from the Treasury as to whether the appropriate price to use is the one from the commodity exchange or some other market determined place. The important thing is that by allowing the market to set the value of these coins, the bill will permit the new coinage to circulate simultaneously with Federal Reserve notes, avoiding the problems of under and overvaluation of currency that has plagued the bimetallic system when Congress itself attempted to fix by statute the various exchange rates between gold, gold and silver, and gold, silver, and national paper currencies.

This simultaneous circulation will be a vital prerequisite for an eventual smooth transition from the irredeemable fiat currency to precious metal as the basis of the Nation's monetary system.

Section V (a) of the bill reestablishes free coinage, another one of the key elements of the constitutional monetary structure. Through free coinage, that is, a system whereby individuals can bring bullion to the Treasury and receive coins paying solely for the mintage charges, the market determines the quantity of gold money in circulation according to the economic needs of society as a whole, undistorted by what we all appreciate are the often antisocial political influences of special interest groups.

If, as seems quite likely, the authorization of these coins initiates competition between them and Federal Reserve notes as media of exchange and if, as also seems likely, a significant segment of domestic commerce chooses gold rather than paper as a monetary standard, then the provision for free coinage will enable society through its own initiative, without any further governmental action, rapidly to procure coinage of precious metals sufficient for its needs.

This, too, will facilitate the inevitable retirement of paper fiat currency in favor of precious metal.

Now, section II (e) is a consequential one because it limits the legal tender character of the gold coins to transactions among private parties. How does it do that? Because the bill provides that "nothing . . . shall prevent the use of coins . . . for the payment of private debts," and because individuals enjoy the privilege of structuring commercial relations around contractual gold clauses. The effect of section II (e) will be to permit private parties to stipulate that American eagles will be legal tender in respect to their own transactions.

So, insofar as the market accepts American eagles as currency, it will treat them as "legal tender" perforce of "gold clauses" and other devices without any governmental edict to that effect. On the other hand, section II (e) disallows the use of American eagles as legal tender, that is, forced payment for public debts, public charges, taxes, duties, or dues are concerned. This, however, does not disable the National Government as a matter of law or policy or certainly the State governments as a matter of constitutional right as well as policy from voluntarily accepting or demanding the new gold coinage in payment of such public debts.

In any event, the limitation of legal tender character is wise in economic principle even though perhaps not necessitated by any

constitutional provision, because historically legal tender laws have too often served to expropriate wealth from one segment of society in order to redistribute to another, not on the basis of the relative contributions of the groups but instead on the basis of their raw political power.

If American eagles are, to use an old phrase, "as good as gold" in the market's estimation, the market will accept them without the coercion of legal tender laws, and if the market finds them unsuitable for commercial purposes, it will ultimately demonetize them by economic action notwithstanding anything the Congress may say in the statute.

Third and last, the introduction of these gold coins pursuant to the mandate of section IVA of the bill that they "shall be sold to the public," presumably for Federal Reserve notes, as a practical matter will render the Federal Reserve note at least quasi-redeemable in gold for the first time since 1968.

To be sure, this limited redeemability will not be "dollar for dollar," and therefore it cannot literally satisfy the obligation this country has assumed in permitting the issuance of these notes by the Federal Reserve System, and it will not extinguish many serious legal problems surrounding Federal Reserve notes and the Federal Reserve System but it will render the Federal Reserve note no longer a strictly fiat currency and initiate competition between paper and gold under circumstances in which the National Government will be required by law to provide American eagles in such quantities as is necessary to meet public demand, that is, I assume, to the extent the public desires to hold gold as opposed to Federal Reserve notes.

In sum, it is my belief that H.R. 6054 can and will make a significant contribution to the resurrection of this country's monetary system on sound economic and constitutional principles, and I urge the subcommittee to act favorably upon it.

Thank you, sir.

Chairman ANNUNZIO. Thank you very much.

[Mr. Vieira's prepared statement follows:]

STATEMENT OF EDWIN VIEIRA, JR.

Mr. Chairman and Members of the Subcommittee: My name is Edwin Vieira, Jr. I am an attorney with a nationwide practice specializing in legal-economic problems that raise fundamental issues of constitutional law.[1/] For some time, I have been particularly concerned with monetary affairs. Earlier this year, I submitted to the United States Gold Commission a detailed study of the constitutional law of money.[2/] Today, pursuant to the kind request of the Chairman of this Subcommittee, I appear here to testify in favor of H.R. 6054, the American Eagle Gold Coin Act of 1982.

From the perspective of monetary economics, H.R. 6054 represents the first practical step in what hopefully will be the rapid and complete transition of this country's monetary system from one based on "*fiat* currency" with legal-tender character but irredeemable in either gold or silver, to one based on coins of the precious metals, and from one in which a *quasi*-governmental central bank manipulates the quantity and quality of money according to political expediency, to one in which the people of the United States themselves determine the quantity of money they require according to economic realities, secure in the knowledge that the quality of their money is a fixed attribute of its own

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1/ *See* Resume, attached hereto.

2/ *The Monetary Powers and Disabilities of the United States Constitution: A Study in Constitutional Law Prepared for the United States Gold Commission* (8 Feb. 1982) [hereinafter cited as "MP&D"].

natural properties, not the result of the capricious policies of politicians and pressure-groups.

From the perspective of monetary law, H.R. 6054 represents the first in what hopefully will be a series of Congressional acts re-affirming and -applying basic constitutional principles the neglect of which by the national government since 1933 has led inexorably to the monetary chaos that now threatens this country with financial collapse. Three interrelated aspects of H.R. 6054 deserve close attention: namely, (i) the legal-economic nature of the proposed "American Eagle" gold coins; (ii) the constitutional stature of these coins; and (iii) the practical effect of the new gold coinage within the existing monetary system.

First, by removing American Eagle gold coins from the reach of federal, state, or local taxation, Section 6 of H.R. 6054 unequivocally defines those coins as "money", in contradistinction from "medals", "commemorative pieces", or other commodities adventitiously fabricated of precious metal but not intended to circulate as a medium of exchange in commerce. The principle that all forms of this nation's money should maintain parity of market exchange-value among themselves has informed Congressional policy since before the first coinage-act in 1792.[3/] H.R. 6054 merely applies this principle to American Eagles. Thus, the bill recognizes that, because American Eagles are "money", "[a]ny

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3/ MP&D at 61-69, 85-91, 113-58, 216-22.

gain or loss derived from [their] sale [or] exchange"[4/] for the standard currency in circulation today, federal-reserve notes (FRNs), would reflect simply a market re-adjustment of parity between the coins and the notes, which re-adjustment would occur only if the national government had theretofore failed to maintain that parity itself by properly regulating the supply of FRNs relative to the new gold coinage. Basic considerations of fairness militate against penalizing with taxation individuals who ostensibly "gain", or rewarding with deductions those who seemingly "lose", because the government is unable or unwilling to maintain monetary stability.[5/] Similarily, H.R. 6054 recognizes that, because American Eagles are "money", any "sale, exchange, or other disposition" of them for a non-monetary commodity would be economically identical with the

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4/ H.R. 6054, 97th Cong., 2d Sess., § 6(a).

5/ The verbs "gain" and "lose" appear in quotation marks, because their applicability in any specific situation under contemporary circumstances is questionable and problematical. For example, if an individual exchanged 500 FRNs for 1 gold Eagle, and some time later exchanged that Eagle for 1000 FRNs, a "gain" would exists on paper. However, if during that time the general price-level computed in FRNs rose, the "gain" in terms of market buying-power might be significantly less than it appeared to be, and could even amount to a loss. FRNs are statutory "obligations" of the United States. 12 U.S.C. § 411 (1976). Constitutionally, taxing at 100% a purported "gain" from the exchange of two national currencies, one a commodity-money and the other a paper obligation, when that "gain" may be signficiantly less than 100% or even constitute a loss, raises perplexing problems under the Due Process Clause of the Fifth Amendment. See Perry v. United States, 294 U.S. 330, 348-58 (1935).

purchase of that commodity with FRNs. But purchases of commodities with FRNs and other currencies have never been treated as transactions generating "gain[s]" or "loss[es]" subject to tax by the national government, and could not constitutionally be so treated by state or local governments.6/ Basic considerations of practicality require that all forms of the nation's currency be equally fitted for commercial transactions, rather than unequally hindered by discriminatory policies of taxation. That H.R. 6054 thus exempts the acquisition and use of American Eagle gold coins from taxation bespeaks the full monetary nature of these coins.7/

Second, by mandating the coinage of American Eagles in gold, and permitting the marketplace to determine their value, quantity, and acceptability in commerce, Sections 2, 4, and 5 of H.R. 6054 unequivocally satisfy the standards for "Money", under

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6/ State and local taxation of exchanges of one currency of the national government for another would constitute intolerable interference with the exercise of Congress' power over money. See, e.g., McCulloch v. Maryland, 17 U.S. (4 Wheat.) 316 (1819).

7/ The bill does, however, contain an ambiguity needful of correction. The language of Section 6(a) that "[a]ny gain * * * shall not be recognized as a capital gain" leaves open the inference that a "gain" could be recognized as ordinary income, and taxed as such. This, of course, would increase, not relieve, the burden of taxation. Therefore, the Subcommittee should consider amending the section to read (in pertinent part): " * * * shall not be recognized as a gain or loss of any kind * * * ".

Article I, Section 8, Clause 5 of the Constitution.[8/] Pursuant to that provision, gold and silver constitute the only substances from which Congress may constitutionally "coin Money" with full legal-tender character.[9/] Section 2 of the bill thus reverses the ill-advised and illegal policy that, from 1933 to 1968, gradually replaced constitutional "Money" of the precious metals with legal-tender "fiat currency" of irredeemable paper.[10/]

Section 2(a)(1) of H.R. 6054 establishes the fine-gold content of the American Eagle and derivative coins in units of weight. The constitutional "Value" of the coins under Article I, Section 8, Clause 5 of the Constitution, however, Section 4(a) of the bill leaves to determination by the market at prices "according to [the coins'] relative weight of gold, equal to the price of gold bullion sold on the Commodity Exchange". In the first instance, these prices will be expressed in terms of FRNs, not in terms of the constitutional standard of "Value", the silver dollar.[11/] However, because efficient markets exist for the mutual exchange of FRNs and silver dollars, the overall effect of Section 4(a)

8/ "The Congress shall have Power * * * To coin Money, regulate the Value thereof, and of foreign Coin * * * ."

9/ MP&D at 56, 76-81.

10/ *Id*. at 223-63.

11/ On the constitutional position of the silver dollar of 371-1/4 grains fine silver, *see id*. at 81-91, 118-26.

will be to permit the market to "regulate the Value" of American Eagles as against silver dollars on a daily basis. Even without resumption of the coinage of standard silver dollars, this procedure will constitute as close to perfection of "regula-t[ion]" of "Value" under the Constitution as is probably possible.12/ Moreover, it will permit the new gold coinage to circulate simultaneously with FRNs, avoiding the problems of under- and over-valuation of currencies that plagued the "bimetallic system" when Congress itself attempted to fix by statute the various exchange-rates between gold, silver, and national paper currencies.13/ Such simultaneous circulation will be a vital prerequisite for an eventual smooth transition from irredeemable "*fiat* currency" to precious metal as the basis of the country's monetary system.

Section 5(a) of H.R. 6054 re-establishes "free coinage", another of the key elements of the constitutional monetary structure.14/ Through "free coinage", the market determines the quantity of gold (or silver) money in circulation according to the real economic needs of the people as a whole,

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12/ *See id*. at 61-69.

13/ Interestingly enough, H.R. 6054 embodies the original, but unadopted recommendation of the Select Committee on Coins of the House of Representatives of 1831, a recommendation the wisdom of which the history of the bimetallic system later proved. *See id*. at 131-32.

14/ *See id*. at 56-58.

undistorted by the often anti-social political influences of narrow, self-interested special-interest groups.[15/] If, as seems likely, the authorization of American Eagles initiates competition in commerce between FRNs and gold coinage for preference as the medium of exchange; and if, as seems equally likely, a significant segment of domestic commerce chooses gold rather than paper as its monetary standard; then the provision for "free coinage" will enable society -- through its own initiative, and without relying on further governmental action -- rapidly to procure coinage of precious metal sufficient for its needs. This, too, will facilitate the inevitable retirement of paper "*fiat* currency" in favor of currencies composed of, or fully redeemable in, gold (and, perhaps later, silver).

Section 2(e) of H.R. 6054 limits the legal-tender character of American Eagle gold coins to transactions among private parties. Because the bill provides that "[n]othing * * * shall prevent the use of such coins * * * for the payment of private debts", and because individuals enjoy the privilege of struc-

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15/ Of course, the national government will also be able to participate in the generation of coins, by itself minting: (i) gold bullion already in its possession, pursuant to Section 5(b) of the bill; (ii) gold bullion it acquires by taxation of individuals in kind; or (iii) gold bullion it purchases with funds, presumably FRNs, it raises through taxation or borrowing. In the broadest sense, however, these forms of governmental action are not only *compatible with* market-activity, as traditionally understood *in this country*, but assumed to be *inherent in* such activity, in the sense that the market presupposes an orderly society of laws based upon a government that can tax, spend, and own property.

turing their commercial relations around contractual "gold clauses",16/ in effect Section 2(e) permits private parties to stipulate that American Eagles will be legal tender in respect of their own transactions. In so far as the market accepts American Eagles as currency, then, it will treat them as "legal tender" perforce of "gold clauses" and similar devices, without any governmental edict to that effect. On the other hand, Section 2(e) disallows the use of American Eagles as legal tender -- that is, forced payment -- where "public debts, public charges, taxes, duties, or dues" are concerned. This, however, does not disable either the national government (as a matter of policy), or the state governments (as a matter of constitutional right, as well as policy),17/ from voluntarily accepting, or demanding, the new

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16/ See Act of 28 October 1977, Pub. L. 95-147, § 4(c), 91 Stat. 1227, 1229. On the history of the "gold-clause" problem, see MP&D at 234-38.

17/ On the unlimited constitutional right of state governments to tax in whatever medium they see fit, notwithstanding legal-tender laws of the national government, see Lane County v. Oregon, 74 U.S. (7 Wall.) 71 (1869), analyzed in MP&D at 202-03.

gold coinage in payment of such debts.[18/] In any event, the limitation of legal-tender character for American Eagles is wise in economic principle, even though not necessitated by any constitutional provision.[19/] Historically, legal-tender laws have too often served to expropriate wealth from one segment of society in order to redistribute it to another -- not on the basis of the relative contributions of each group to the production of goods and services for the community, but instead on the basis of the

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18/ The bifurcated legal-tender effect of Section 2(e) might appear discriminatory and unfair, at first glance. For instance, assume an individual with $1,000 in FRNs exchanged them for American Eagles when the "price" of each coin in Section 4(a) of H.R. 6054 was $500. If the individual then incurred a tax-liability of $1,000, when the "price" of each Eagle was less than $500, he would seemingly suffer a "loss" (seemingly, because the variation in exchange-rate between the two currencies might also reflect a drop in the general price-level). Thus, by depriving the Eagle of legal-tender character, the bill in this instance appears to injure the holder of gold. This conclusion does not follow. For, even if the Eagle had legal-tender character, its "price" on the day the individual paid his taxes -- and, therefore, its value for paying those taxes -- would be the (lower) market price on the immediately preceeding day, not the (higher) price on the much earlier day when he made the original exchange. So, unless the statute were to invest each Eagle with an immutable legal-tender value as of the day of its original acquisition by the holder, the absence of legal-tender character would not be important economically. Moreover, constitutionally, Congress may not "regulate the Value" of gold coinage in such a manner as knowingly to over- or under-value it as against other national currencies. See MP&D at 61-69 and, mutatis mutandis, 70-76. See also the discussion of the revaluation of gold coinage pursuant to the Coinage Act of 1834, in id. at 127-47.

19/ On the Congressional power to declare "Money" legal tender, see id. at 76-81.

appropriating group's raw political power.[20] If American Eagles are, indeed, "as good as gold" in the market's estimation, it will accept them as such without the coercion of legal-tender laws; and if the market finds them unsuitable for commercial purposes, it will ultimately demonitize them by economic action, notwithstanding any contrary statutory pronouncements.

Third and last, the introduction of American Eagle gold coins pursuant to the mandate of Section 4(a) of H.R. 6054 that they "shall be sold to the public" (presumably for FRNs) as a practical matter will render the FRN at least quasi-redeemable in precious metal, for the first time since 1968.[21] To be sure, this limited redeemability will not be "dollar for dollar", and thereby cannot literally satisfy the "obligation" the United States has assumed in permitting the emission of these notes by

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20/ Indeed, the chaotic economic consequences and injustice of tender laws were the primary motivations behind the careful delineation of monetary powers and disabilities in Article I, § 8, cls. 2, 5, and 6 and Article I, § 10, cl. 1 of the Constitution. See MP&D at 3-29.

21/ See id. at 223-63.

the Federal Reserve System (FRS).22/ Neither will it extinguish the many serious constitutional problems surrounding FRNs23/ and the FRS itself.24/ However, it will render the FRN no longer a strictly "*fiat* currency", and initiate competition between paper and gold under circumstances in which the national government will be required by law to provide American Eagles "in such quantities as [the Secretary of the Treasury] determines to be necessary to meet public demand" -- that is, to the extent the public desires to hold gold, as opposed to FRNs.25/

In sum, H.R. 6054, the American Eagle Gold Coin Act of 1982, can make a significant contribution to the resurrection of this country's monetary system on sound economic and constitutional principles.26/ I urge this Subcommittee to act favorably on it.

22/ 12 U.S.C. § 411 (1976).

23/ MP&D at 263-82.

24/ *Id*. at 282-95.

25/ H.R. 6054, 97th Cong., 2d Sess., § 2(d). The law presumes that governmental officials do their duty. *E.g.*, Butt v. Stranahan, 192 U.S. 470, 496-97 (1904). Therefore, the Secretary presumably will acquire gold bullion sufficient to provide American Eagles for all who want them.

26/ *See* MP&D at 295-308.

RESUME

Name: Dr. Edwin Vieira, Jr.

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Born: 27 September 1943, Fall River, Mass.

Marital Status: unmarried

Education:

Preparatory: Moses Brown School, Providence, R.I. (1948-1961)

College: Harvard College, Cambridge, Mass. (1961-1964)

Course of Study: chemistry

Academic Distinctions: National Science Foundation Research Grant, 1962; Harvard-NSF Grant, 1963; Harvard Research Grant, 1964

Degree: A.B. (*cum laude*), 1964

Graduate: Harvard University, Graduate School of Arts and Sciences, Department of Chemistry, Cambridge, Mass. (1964-1969)

Course of Study: organic chemistry (under direction of Professor Robert Burns Woodward)

Academic Distinctions: NSF Pre-doctoral Fellowship, 1964-1965; Harvard Teachng Fellowship, 1965-1966; National Institutes of Health Pre-doctoral Fellowships, 1966-1969

Degrees: A.M., 1966; Ph.D., 1969

Thesis: "Tetrodotoxin: A Synthetic Approach" (studies in the synthesis of tetrodotoxin, the nerve poison of the Japanese puffer fish)

Law: Harvard Law School, Cambridge, Mass. (1970-1973)

Academic Distinctions: Samuel Williston Competition, First Place; Ames Competition, Semi-Finalist; National Moot Court Competition

Degree: J.D. (cum laude), 1973

Employment:

Consultant, Advanced Chemistry Division, U.S. Naval Ordnance Laboratory, Silver Spring, Md. (1969-1971).

Research Staff Member and Speechwriter, U.S. Senate campaign of John H. Chafee, R.I. (Summer-Fall, 1972).

Staff Attorney, National Right to Work Legal Defense Foundation, Springfield, Va. (1973-1975). Consultant to National Right to Work Committee and National Right to Work Legal Defense Foundation (1975 to date).

Assistant Professor of Law, Wake Forest University School of Law, and Research Director, Wake Forest Institute for Labor Policy Analysis (1975-1978).

Member of Board of Fellows, Public Service Research Foundation, Vienna, Virginia (1978 to date).

Consultant, United States Department of Labor (1982 to date).

Attorney at Law, private practice specializing in constitutional and labor law (1978 to date).

Member of the Bars of Maryland; the District of Columbia; the United States Supreme Court; the United States Courts of Appeals for the Fourth, Eighth, and the District of Columbia Circuits; and the United States District Courts for the Districts of Maryland and the District of Columbia.

Publications:

"Of Syndicalism, Slavery and the Thirteenth Amendment: The Unconstitutionality of 'Exclusive Representation' in Public-Sector Employment", 12 Wake Forest L. Rev. 515 (1976).

"Exclusive Representation versus Freedom of Petition for Nonunion Public Employees -- A Study in Irreconcilable Constitutional Conflict", 1977 Detroit College of Law Rev. 499.

"Are Public-Sector Unions Special Interest Political Parties?", 27 *DePaul L. Rev.* 293 (1978).

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"Rights and the United States Constitution: The Declension from Natural Law to Legal Positivism", 13 *Georgia L. Rev.* 1447 (1979).

"To Break and Control the Violence of Faction": The Danger to Representative Government from Compulsory Public-Sector Collective Bargaining (Fairfax: Foundation for Advancement of the Public Trust, 1980).

"Extension of the National Labor Relations Act to Public Sector Employment: Radical Change or Capstone to Revolution?", 1 *Government Union Rev.* 23 (Winter 1980).

Book Review, Injunctions and Labor-Disputes: 1880-1932. Part I: What the Courts Actually Did -- and Why. By Sylvester Petro., *Law & Liberty*, Vol. 5, No. 2 (Winter 1980).

"Compulsory Public Sector Collective Bargaining: The Trojan Horse of Corporativism", 2 *Government Union Rev.* 56 (Winter 1981).

"Inflation -- A Cancer in American Society", *Officer Review*, Vol. 20, No. 9 (June 1981), at 3.

"The Syndicalism of the Intellectuals: A Commentary on the Role and Purpose of the American *Intelligentsia* in Promoting Socialism in the United States", 6 *J. of Social, Political and Economic Studies* 269 (1981).

The Monetary Powers and Disabilities of the United States Constitution: A Study in Constitutional Law Prepared for the United States Gold Commission (1982).

"Compulsory Public-Sector Collective Bargaining in the United States Supreme Court: *Perry Education Association v. Perry Local Educators' Association*", 3 *Government Union Rev.* 43 (Spring 1982).

Briefs submitted to the Supreme Court of the United States:

City of Madison, Joint School District No. 8 v. Wisconsin Employment Relations Comm'n, No. 75-946 (October Term, 1975) (brief amicus curiae on behalf of Public Service Research Council).

Abood v. Detroit Board of Education, No. 71-1153 (October Term, 1975) (brief on behalf of Appellants).

Walles v. Bechtel Corp., No. 77-48 (October Term, 1977) (brief on behalf of Petitioner).

Hicklin v. Orbeck, No. 77-324 (October Term, 1977) (brief amicus curiae on behalf of National Right to Work Legal Defense Foundation).

Knight v. Heaney, No. 79-75 (October Term, 1979) (brief on behalf of Petitioners).

In re Knight, No. 79-1687 (October Term, 1979) (brief on behalf of Petitioners).

Langworthy v. Maryland, No. 80-5840 (October Term, 1980) (brief amicus curiae on behalf of Citizens' Commission on Human Rights.

In re Ellis and Fails, No. 81-1119 (October Term, 1981) (brief on behalf of Petitioners).

Perry Education Ass'n v. Perry Local Educators' Ass'n, No. 81-896 (October Term, 1981) (brief amicus curiae on behalf of Public Service Research Council).

Threlkeld v. Robbinsdale Fed'n of Teachers, Local 872, AFL-CIO, No. 81-2403 (October Term, 1981) (brief on behalf of Appellants).

Chairman ANNUNZIO. And now our last witness is Mr. Luis Vigdor, vice president, Manfra, Tordella & Brookes, of New York. We welcome you to the subcommittee. Your entire statement will be made a part of the record.

STATEMENT OF LUIS VIGDOR, VICE PRESIDENT, MANFRA, TORDELLA & BROOKES, NEW YORK, N.Y.

Mr. VIGDOR. Thank you.

Mr. Chairman and distinguished members of this subcommittee, I feel very honored in having this opportunity to express the views of my firm of Manfra, Tordella & Brookes and my personal views, and also I am a member of the National Association of Coin & Precious Metal Dealers where I am one of the directors. They have asked me also to mention that they share my views.

We feel very qualified in being here, mainly because we operate continuously in buying and selling gold coins. We feel we are the largest U.S. gold coin dealer in this country. We have the largest volume. I am totally submerged in this business from the morning to the evening, many times 12 hours a day. Therefore, I honestly want to give my real contribution to this subcommittee.

I am in favor of the American eagle. I would like to go to our sales. I will briefly cover my paper here. I will not read the whole thing. I would like to just expedite it.

The sales of MTB annually between silver and gold coins—and again, we only move physical material—exceed a quarter of a billion dollars. We also note that we sold assorted gold coins and gold bars in the number of about 556,000 pieces. Looking through my statistics while I was preparing this report, I noticed that only 6.6 percent of this figure constitutes American gold coinage. I think this is one thing I would like to impress on the subcommittee: how little American gold coins are being sold right here in the United States.

The trading of gold in this country has become a major industry since legalization of gold in 1975. The public mostly buys gold coins, they do not buy gold bars, although you have some people who will buy gold from the futures market. There is presently no U.S. bullion coin available, and they have obviously no other choice than going to the current foreign gold coins available.

The second question at this particular point comes that the Gold Medallion Act, which, in my opinion, right from the very beginning, was not properly conceived, has never been able to make a dent in the powerful krugerrand market. We can see this from diminishing sales already from the very first introduction of the one ounce all the way down to the next ounce and half-ounce. You have the Anderson and the Cather, absolutely no sales, no activity. We don't see a secondary market.

As soon as these were issued, we tried to make a secondary market. We placed them in the computer screens. We published the prices through the Reuter system, and absolutely did not have a reaction from the public. Therefore, we come to a point where we have absolutely no U.S. competitor against the krugerrand and the other gold bullion coins in this country.

I wanted to trace back a little bit into history and show you why the American public was treated unfairly after 1933. Before that, everyone was asked to send in their $20 American gold coins and they got paper money. Foreign banks did not do so because they suspected that gold would be revalued, and that is why most of our supplies, which, unfortunately, are diminishing right now, of U.S. coins came from foreign banks. Foreign central banks were sitting on American gold coins. The reason is they never sent them in for redemption since prior to the Second World War.

So gold was now revalued to $35 an ounce, and in the process, after having placed this high price on gold, a lot of foreign governments sent their gold to the United States and we bought it all at that remarkably high price. They considered that the United States was totally overpaying for gold. Therefore, you had a process of changing hands from mostly European governments all of the way to the U.S. Government, who in turn accumulated possibly the largest gold hoard in the world, which got very close to 700 million ounces.

Time passed by. We went through the depression and the Second World War. We got to the Korean war, and all of a sudden the price of $35 an ounce, which was still maintained for governments, became very attractive. Things had changed around. Now we see that our gold was being repatriated at the original prices of $35 an ounce to the tune that we lost in the process about two-thirds of our national gold hoard.

France started the repatriation. They had an excess of dollars, and all of the other countries came in. If you look at charts, you will see that central bank holdings of gold decreased dramatically right after 1933, and in the process in the fifties they picked up, and right now we have come to the point where we have about 270 million ounces of gold left, and the rest has been distributed to other governments.

This was finally stopped by President Nixon, and the gold was revalued to the $42 area. Here comes the situation. Gold all of a sudden was being auctioned off. The American people did not really have access to these auctions because of the size limitation. The minimum order size took them totally out of that. Before, when gold was being sold at $35 an ounce, they had no access because they were not central banks, so they were eliminated in the process.

After this entire situation the Americans started to sense that the dollar was getting very weak and was losing buying power from one day to the other, and little by little, the Americans started to buy and become collectors because they could not buy coins for their bullion value before 1974. They had to declare themselves collectors. They would come to our counters and say "I am a collector," and what did they have available? We had American gold coins, we had English sovereigns, we had at the time the French, the Italian, and all of the different gold coins from other countries, including also the Mexican 50 peso, the earlier one, the one minted between 1921 and 1931.

As the dollar got weaker and as dollars were being refused—the acceptance of dollars was being refused overseas—the public over here bought more gold coins, to the point that at the end of 1974, I

feel the period of the real gold rush arrived in this country. This was just before legalization.

And in 1975 after legalization, the krugerrand was allowed to come into this country. This coin has already been established in Europe very well. They sold millions of them in Germany and England, and then all of a sudden they started with a very strong advertising campaign in the United States and millions of dollars were pumped into the market, and we have now created a household word, "krugerrand," all over the country.

We had other governments copying this. We had the maple leaf from Canada, the chervonetz from the Soviet Union. We had the new Elizabeth sovereigns from Great Britain. The Franklin Mint came in with their gold pieces, and Engelhard came in with a prospector. In addition to that, we see that—and here I would like to point out that Treasury is recommending not to make the small gold coins—Canada will issue in October, that is, on the 17th of October, small gold coinage. They will have the quarter maple leaf, and the one-tenth maple leaf. They are bypassing the half. They are issuing that because of a tremendous increased demand in the overseas market.

The People's Republic of China is coming out with a total series of gold coins. They are starting out with 1 ounce and going down the line, the same as the krugerrand. I have attached a pamphlet for illustration purposes so you can see the products we have on the market.

I feel that we have already missed the boat when we came out with the Medallion Act because the design was wrong, the name of the country was not on there, the fineness was not on there, the weight of the medallion was not on there. And we expected this medallion to come in and replace all of a sudden the massive amount of krugerrands, maple leafs, and Mexican 50 pesos. We missed the boat there.

When I was invited over here and read this bill, I said, thank God, maybe we have now the opportunity to come back and bring a true American bullion coin into the market. I would just like to read this sentence in full: "The most powerful country in the world should not depend upon foreign gold coinage. It has the gold; it should use it to promote trade and produce profit."

I would like to go one step further, and this is not in the record here. When the Soviets got into power, history showed one of their first orders of business was to create the mining of gold and to stimulate the mining of gold. We have in this country neglected the gold mining industry. I feel that gold mining should start all over again. There is plenty of gold in this country and plenty of American gold can get out of the ground if the Government comes and starts buying at a guaranteed price the ounces being extracted here.

This is beside the point, but here again, it would be something to go against the theory that Treasury gold holdings will be depleted if too many gold coins are being sold. Let's start mining American gold again. The eagle, in my opinion, if it comes into being as expressed in this bill, will wipe out Canadian maple leaf, krugerrand, and every coin in sight to the tune of 75 percent. The same situation, believe it or not, will be abroad.

I think there is a total void in not having an American coin overseas. People depend, again, on krugerrands, maple leafs and gold bars. If an American gold coin is exported, we would have interested countries right now with a heavy import of gold coinage, such as Japan and Hong Kong. It is interesting, by the way, that the countries where taxation all of a sudden was imposed on gold coins, great drops in sales were experienced. The moment they started to tax the krugerrand in Germany, the sales were dead. The same thing in Switzerland.

I feel also that the coin should be legal tender. I don't think we should come out with a medal again even if we want to give it some different design and reading and all kinds of different aspects. Personally I feel legal tender has to be on that particular coin. The generic name, yes, it doesn't have to be a dollar denomination. It could have the name of the gold eagle, which I think is perfectly acceptable. We could also use the names of liberty, we could use America, we could use U.S.A. We could call it the one liberty gold, one America gold, or U.S.A. gold.

Distribution should go through the banking system. The Federal Reserve bank should distribute it all the way down through the banking system, and the pricing should also, in my opinion, be generated at the Federal Reserve bank level. The Federal Reserve bank has ample facilities to trade currencies. They are totally involved in trading foreign currencies and they could also be trading gold coins.

On the sales tax exemption, I am fully in favor. I am against the city and State sales tax because this prevents companies like ours and others from operating in their own States and cities, and they have massive competition from mail orders.

Chairman ANNUNZIO. Could you wrap that up, Mr. Vigdor?

Mr. VIGDOR. I am almost finished.

And finally, the tax exemption on capital gains—and I want to drive this point very carefully here because it may be misconstrued. The tax exemption on capital gains will create an influx, and I am talking about here stagnant money, stagnant cash which is sitting all over the country and all over the world against the exchange of stagnant gold which is sitting either at Fort Knox or other depositories.

I finally believe, representing MTB and myself, the United States will become the new gold trading center of the world. It will replace Zurich and London, and I believe nothing would be better to commemorate the freedom we have of the American people buying and selling coins than coming out with a true American bullion coin to symbolize this freedom which in many countries the people do not have. That is my statement.

[Mr. Vigdor's prepared statement, on behalf of the firm of Manfra, Tordella & Brookes, follows:]

MTB

The American Eagle Gold Coin Act of 1982
H.R.6054
Statement Presented by Manfra Tordella & Brookes, Inc.
Luis Vigdor Vice President,
30 Rockefeller Plaza,
New York, N.Y. 10020

Mr. Chairman and distinguished members of this committee.

I feel very honored in having the opportunity of expressing the views of my firm, Manfra Tordella & Brookes, Inc. on the important subject of the creation of the American Gold Eagle.

We feel specially qualified in this subject, because of our vast experience in the gold coin bullion field. Just to give you a glimpse on our daily activities, let me state that MTB is without any question the largest trading house in United States Gold coins in this country.

Our Annual sales volume of combined physical gold and silver products exceeds a quarter billion dollars. In 1981 we sold 556,200 assorted gold coins and small bars. I must sadly point out to this committee that from this figure, only 6.6% were United States Gold coins that leaves us with the fact, that 93.4% of the other products were manufactured in foreign countries.

The trading of gold in the United States, has become a major industry since its legalization in January 1975.

The public who buys and sells gold does so mostly in coin form, and such coins are all minted in foreign countries.

This leads us to the first question as to why is there no United States bullion coin available to the U.S. public and to the world market.

The second question which comes to mind is why is there only a Gold Medallion Act which, in our opinion, does not have the proper ingredients to compete, or even make a dent in the powerful Krugerrand market.

We, at MTB, feel very strongly about the absolute lack of presence of a United States gold coin in the bullion market. All we can find at present is the traditional United States gold coins which were discontinued and withdrawn from circulation in 1933.

Let's look at what actually developed after 1933 - when all the American public was asked to turn in their gold coins in exchange for paper money:

MTB

After the redemption of the U.S. gold coins, this country proceeded to re-value gold at 35 dollars an ounce, and this new price caused many countries, large and small, to sell us their gold at this attractive level In the process,the U.S. acquired the largest gold hoard in the world and their gold reserves exceeded 750 million ounces.

After a long depression, World War II, and the Korean War, gold was again in the news, and the 35 dollar price per ounce was now again attractive to foreign governments who were the only ones allowed to buy it at this level Their Central Banks had been overstocking in U.S. Dollars, which slowly had been accumulating during this period. This was the scenario before the great sale of our gold.

The late Charles DeGaulle started the run on behalf of the Bank of France. We were now witnessing a re-patriation of the gold we bought in the 30's or a total transfer of wealth from one country to another. Two thirds of our national gold reserve was lost during this period.

This drainage was finally stopped by President Nixon by re-valuing gold to 42 dollars an ounce and no longer selling it to Central Banks against our dollars.

United States gold was later sold on numerous occasions at official gold auctions, and again we must say that although it was sold at the free market levels, most went to foreign buyers.

We are not here to look at the past gold sales, and are in no position to say if the price of 35 dollars an ounce paid for most of it was justified We must, at this time, point out that the man on the street the average U.S citizen, never had a chance to buy any of it. At the 35 dollars level he was not allowed to buy; since he was not a Central Bank. At later U.S Auctions the minimum amounts offered economically eliminated at least 99.9% of the U.S public.

Sensing the International Markets, Americans were becoming more aware of the existence of gold. Do not forget that we had two "goldless" generations in this country that is, since the thirties until legalization in the seventies. Before legalization a very active gold coin market had been in the making for many years and so-called "collectors" were allowed to buy gold coins minted before 1933 for collecting purposes only. The monitoring of this market was left to the now extinct Office for Gold and Silver Operations here in Washington.

MTB

As the U.S. Dollar became more vulnerable to inflation, the gold coin buying by the public increased. The popular gold coins in the days prior to legalization were our U.S. Double Eagle 20 Dollar piece, the English Sovereign and most European gold coins with the Latin Union Standard (French Napoleons, Swiss Vrenelies, Italian 20 Lires etc.).

In early 1974 the Office for Gold and Silver Operations allowed the sale of Restruck Gold Coins (coins struck before 1933 being minted again by the same foreign country, using the original restrike date) and by far the most popular coin became the Austrian 100 Korona of 1915, and its smaller denomination cousins the Ducat series. Following closely was the old standard in the industry the Mexican 50 Pesos Millions of coins were imported and sold during that year and in our opinion, the real gold rush in this country was in 1974.

After legalization, the already popular Krugerrand became the single, most sold coin in this country and to this date has no competition. Massive amounts of advertising dollars have been spent by the South Africans since 1975, making the Krugerrand a new household word in the American lingo.

This success triggered the introduction of new gold coins; the Maple Leaf from Canada The Russian Chervonetz from the Soviet Union, The Onza series from Mexico the Elizabeth Sovereign from Great Britain and numerous issues from private mints, the Franklin Mint gold pieces, and the Prospector series from Engelhard.

The U.S. Government also contributed to the long list of competitors by producing the American Arts Commemorative Series, which in essence was a program designed to market 1 oz and 1/2 oz gold medallions.

(We have attached to this report our Gold Pamphlet for illustration purposes. You will find listed in the same all of the major bullion coins traded in the world).*

The gold medallion program is and was in our opinion a failure, due to marketing, design, and planning errors.

We feel that this country had the unique opportunity of producing an American alternative to the Krugerrand and, due to circumstances unknown to us, introduced into the market a product, which from the very start, had no chance at all.

The American Eagle Gold Coin Act of 1982 H.R 6054 may give us the opportunity one more time to make our U.S. Gold Coin the new standard in the world. The traditional $20 Double Eagle which started in 1849 left a legacy of such importance. This legacy should be brought back to life.

*Retained in the files of the subcommittee.

MTB

The most powerful country in the world should not depend on foreign gold coinage. It has the gold, and it should use it to promote trade and produce profit.

Our firm has been in the Foreign Exchange and Gold business for many years, and we have handled just about every gold coin traded in quantity on the international markets.

We feel qualified to suggest that the American Gold Eagle can and will replace 75% of all the foreign gold coins now being traded in this country.

It has an equal opportunity to do so on the overseas markets, where a United States gold coin would be far more popular than the Krugerrand or the Canadian Maple Leaf.

It is imperative that the coin be considered Legal Tender, and that its value would have a direct relation with the daily gold price fixing by either the U.S. Treasury or the Federal Reserve Bank.

The coins should have no dollar denomination, but they should be known with a generic name which will identify them. We feel that the name Gold Eagle is acceptable. Other names could be Liberty, America, USA. For example, a one ounce coin could be called "One Liberty Gold, or One America Gold, or One USA Gold"

They should be made available through the Banking system, and priced on a daily basis, or on an instantaneous basis, parallel with gold and foreign exchange. This trading would be done at the Federal Reserve Bank level down to its member banks.

A dual buy and sell price system must be available during all trading hours. Selling gold coins is not a one-way street, as the buyer many times becomes a seller.

A ready market is key to the success of the this coin. A buy price from the source will give this coin credibility and strength and allow trading to remain stable.

We believe that an investment in gold should not carry the burden of a sales tax. We consider the sales tax issue a great disadvantage in any state, which in turn loses business from these "out of state" mail order operations, competing against local, established businesses.

We also see the unique opportunity offered by the other tax exemptions. Stagnant money will be returned to the U.S. Treasury in exchange for stagnant gold now sitting in Fort Knox or other depositories. We feel that billions of

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dollars can be put to work by effecting this exchange. Some may call it bleaching of capitals. We would call it good common sense.

As a final comment, MTB believes that the United States will become the new gold trading center in the world, by taking away the lead from such financial centers as Zurich and London. Nothing would compliment this fact more than the creation of a true U.S. bullion coin for its citizens. This would symbolize the true freedom we Americans enjoy which, unfortunately, the people of some other countries do not have.

Thank you very much.

Chairman ANNUNZIO. Thank you, Mr. Vigdor, for your excellent statement.

This morning I am going to ask Mr. Paul to question the witnesses, and before he does, I want to say to him that I am delighted we have had these meetings on his gold coin bill.

Ron Paul is a valuable member of our subcommittee. He might be of the opposite party, but he and I have been able to trust each other, work together, and I shall always cherish that camaraderie that we have enjoyed on this subcommittee. It is a genuine pleasure for me, Ron, to cooperate with you in having these hearings and your spearheading the hearings today. So I would like for you to proceed.

I want to inform the panel we are not through with our questions. I have questions for the other group that left. We will write to you if we have questions we want answered. This record will remain open and you will be given an opportunity to answer questions also for the record.

Mr. Paul.

Mr. PAUL. Thank you very much, Mr. Chairman. Again I would like to express my appreciation to you for having the hearings and being patient with my tardiness today. I deeply appreciate it. It is true we have been able to work rather well together.

There was an expression of concern about the bailing out of all of the international debt that exists in the world. There is a portion of the Monetary Control Act that I think will be used to accomplish this, and that happens to have been one bill that very few of us in the Congress opposed. I believe both the chairman and I are on record as being in opposition to that piece of legislation, which I consider to be bad legislation.

I would like to compliment the panel for coming and for their outstanding testimony. I don't think I have too many challenging questions, but I do have a few.

Mrs. Busiek, I would like to express my deep appreciation for your fine work. I think your art work is fantastic. I don't know what we can call the coin. I guess it could still be called a double

eagle. There are at least two eagles on there, so I imagine we could work the name problem out.

I am interested in Mr. Wilde's opinion about the drawing here as far as the possibility for a coin. Do you have an opinion?

Chairman ANNUNZIO. Before you answer that question, I would like my colleague to know that when he calls that a bad piece of legislation, I call it the worst piece of legislation we have enacted in the last 20 years.

Mr. PAUL. That is pretty strong.

Mr. Wilde, I wondered about your opinion. Would you be happy with the coin as Mrs. Busiek has designed it?

Mr. WILDE. I think she has done an excellent production of what could be there. The only point I made is the Great Seal would be appropriate, as suggested to you, since it is an anniversary year. It is something new to me and I do like her design, yes.

Mr. PAUL. Another suggestion that has been made since there is a timing problem, and Treasury expressed it, I believe. In 1986 there is a 100-year anniversary for the Statue of Liberty, and others have proposed that maybe on one side of the coin we would have a Statue of Liberty. But that could be in combination with something like this. I think everyone who has seen this drawing has been very much impressed with it, and I think that if we are going to have a coin, it might as well look nice. If we have a medallion, again, that is unattractive, I don't think many people are going to be too interested in it.

I have a specific question for Dr. Salerno. We have a recommendation by the Gold Commission that the coins would be exempt from taxation. How critical is that? Do you think that if we could not get that portion of the bill passed so they would be exempt from either the sales tax and/or the capital gains tax, would this still be a worthwhile project to go through with, or do you think that takes away most of its punch?

Dr. SALERNO. I think it really does take away most of its punch. I think it would be marginally worthwhile. If it is going to be taxed, there will be problems getting it into circulation and having the wide demand that I think is important so that in fact it can be ready to serve as an alternate currency.

Mr. PAUL. On the question of replacing gold, this was discussed at the Gold Commission and some were very concerned about what would happen if some of the gold supplies were depleted. Would you have any objection to either allowing those reserves to be depleted, or if the Treasury under current law could replace those, would you have any objection either way if they allowed them to be depleted or, if they felt more secure, by replacing the amount of gold?

What is your opinion on that, Dr. Salerno?

Dr. SALERNO. I would have no objections to the Government literally selling off its gold stock, letting it run down and getting it back into private hands. I don't think I would want the Treasury replenishing the stock unless it was to be a first step to redeeming the dollar in terms of gold. In that case I could see the purpose, but I think it should be gotten back to the public as it was before 1933 where it will do its most good.

Mr. PAUL. Also, Dr. Salerno, and Mr. Vigdor maybe can comment on this, do you think it is pretty important that the number of coins would be unlimited rather than limited? There have been some proposals that there be so many million minted per year. Wouldn't this distort the competition if we had a coin only in limited quantities? It would be hard to compare the American double eagle to the krugerrand.

Mr. VIGDOR. I feel the limited number is usually a gimmick to sell numismatic coins. I think here we are talking about something entirely different. We are talking about a bullion coin which we are trying to give to the American people, and everyone who wants it and has the ability to buy it, even if they can buy one-tenth of an ounce, they should be able to do it. I don't think there should be a limit as to how many coins should be produced each year.

Dr. SALERNO. I think the limit would be a gimmick which would give it a value above the value of the gold that it contains, and I would be opposed to that.

Mr. PAUL. So you would emphasize the importance of allowing an unlimited supply.

Dr. SALERNO. Yes. It would be like a medallion if you had a limited supply.

Mr. PAUL. Mr. Vigdor, do you think with the legislation as it is we would overcome the problem of developing a secondary market?

Mr. VIGDOR. Yes, absolutely. In my report I absolutely recommend that there has to be a buy-back by the issuer. Therefore, a bank should have the means of going back to the Federal Reserve and selling 1,000 or 2,000 coins they may have purchased that particular day. Buyers at some times become sellers and they have to have the ability to go back. You cannot expect private industry to be able to absorb all of these coins. Therefore, I think a posted price every day, a buy and sell price has to come through the channels by Federal Reserve, maybe by Treasury, where you say, all right, the eagles today will cost 445 on the bid and 447 on the sale side. That is the wholesale going right down to banks and that will create the secondary market. If that price is too low, the secondary market will push it up and pay more for that. It would be an interesting experiment.

Mr. PAUL. What do you think would happen to the sales of the South African krugerrands if we had a coin like this on the market? Do you think we could take away most of that market, at least a portion of it? What would likely happen? I know there is a lot of anti-South African sentiment that exists in the Congress, and some people like to think that if we were able to compete adequately with South Africa, it would be to our benefit.

Mr. VIGDOR. I think even without trying we would eliminate the sales of South African krugerrands in this country if you have the tax benefits attached to the purchase. If you have no tax benefit, you will still sell coins, and I believe you will sell coins to the tune of 2 million or 3 million pieces a year. But then krugerrands, maple leafs and Mexican will coexist.

Mr. PAUL. Do you think that because it is an American coin and a good-looking one, we would bring some new people into the market, those who might be less sophisticated about gold and silver? Do you think it would bring in people just for the fact that

it is an American coin, a nice coin, and just out of patriotism and a desire to buy an American coin, we might get American individuals buying who have not bought before?

Mr. VIGDOR. We have many customers who will not buy a krugerrand or another foreign coin, and I feel that these very same customers who are buying right now American double eagles, they will actually go to the extent and spend 30- 40- 50-percent premium just to have an American coin. These people will definitely start buying the American eagle.

Mr. PAUL. That is all I have at the moment.

Mr. ANNUNZIO. Mr. Wilde, the American gold eagle coin, will it appeal to coin collectors, since it is not a legal tender piece?

Mr. WILDE. Yes, sir, I think it will, especially if we use the St. Gaudens design from the 1908 double eagle. I think St. Gaudens, who was one of the foremost modern designers in the United States, will be very acceptable to the numismatic public. The numismatic public already collects his pieces in double eagles and eagles. Therefore, I think it would be acceptable.

Chairman ANNUNZIO. Would exempting these coins from income tax be likely to divert investors from numismatic items which are the subject of capital gains taxes?

Mr. WILDE. I think the individual who would normally say he is buying it because of a tax advantage, he is not talking about a numismatic item that he wants for his collection. I think you will have more people who will come in and buy it if you are tax exempt. I think we would have people who would become numismatic collectors who are not now because of the tax advantage. They would buy this and find the tax advantage and learn to become numismatists.

Chairman ANNUNZIO. Mr. Vigdor, why should the U.S. Government mint gold coins instead of just allowing people to purchase bullion at market prices? Would that not be a lot less trouble?

Mr. VIGDOR. First of all, Mr. Chairman, I feel that the United States has such a fantastic numismatic tradition going back to the 1850's. The Panama Canal was built, and we issued a gold coin for the Panama Canal, and the laborers were paid with $5 gold pieces. This was the real money of the time. Why should we make bars when we can make a coin? People are looking to buy a piece made by the U.S. Government and represented by the Seal of the United States, and you put either the St. Gaudens design or another design. It would be far more feasible to sell that than bars. There is no question in my mind. And do not call it a medal. Please do not call it a medal, because then we may as well not even start this.

Chairman ANNUNZIO. You stated in your statement that the most powerful country in the world should not depend upon foreign gold coinage. Could you tell me, how does the United States depend upon foreign gold coinage?

Mr. VIGDOR. Mr. Chairman, this is what we are selling. We are selling *x* amount of krugerrands. Our firm has sold about one-tenth of the annual production of krugerrands. By looking at statistics, we sold like 500,000 pieces of gold, not all one ounce. We have 1-ounce pieces, half-ounce pieces, and some gold bars, and out of the sales, only 6 percent go to U.S. coins. If we had any U.S. coins, I

would say if we had a U.S. gold coin or coins, we would go 80-percent U.S. coins, 20-percent foreign product.

Chairman ANNUNZIO. These coins seem to belong in a category all their own. Can they be used for private debts and not for public debts? They are not medallions or commemorative coins. If there is a market for this coin, given its unusual status, is it the market that gives this coin?

Mr. VIGDOR. Actually, when you are talking in terms of bullion coins and you issue these, let us take, for example, 1-ounce pieces, and you have issued 4 or 5 million pieces per annum. That item will trade on a daily basis. It will be posted just like a stock or a bond, and it will trade right along in parallel with the gold market, either in New York or London or Zurich, wherever the markets are, or Hong Kong.

I feel most of these coins will go overseas, because they will be very well accepted if it is a coin endorsed by the U.S. Government and called a coin. It does not have to have a denomination, but it has to be called a coin. That is the magic word.

Chairman ANNUNZIO. You said in your statement that the enactment of the American Eagle Gold Coin Act of 1982 might give the United States an opportunity to make our U.S. gold coin the new standard in the world. How would that be advantageous to the United States, would you explain?

Mr. VIGDOR. In the past, Mr. Chairman, propaganda was usually done by coining. Go back to the Roman empires or the Greek empires. Anytime you had a new Governor or a new leader coming into power, his emblem would be emprinted in coins and coins would then be distributed throughout the country. We are distributing our coin, our coat of arms, and telling the rest of the world this is what the United States is all about, and we are preaching our freedom of action. In many countries, they cannot. You go to the Soviet Union. A Soviet citizen cannot buy a gold coin. And in most of the satellite countries the same situation exists.

Chairman ANNUNZIO. Dr. Salerno, would gold coins have an effect on our unemployment or our interest rates?

Dr. SALERNO. No, I do not think so. What I think they would do is, in the case of inflation accelerating, as I think it will be in the next few years, people can resort to the use of gold coins to protect themselves from the erosion of the purchasing power of the paper dollar.

As far as a direct influence on interest rates and employment, I do not think you would see that in the short term.

Chairman ANNUNZIO. In your opinion, would the tax exemption in this bill have an effect on investment decisions? Would that be good or bad from the standpoint of the Nation's economic well-being?

Dr. SALERNO. You are asking me here to make a value judgment. To begin with, it certainly would have an effect. Without taxes, demand would be greater than in the case of taxing it. In fact, I am worried that should it be taxed if inflation got bad and people began to resort to gold as money, thus showing up the U.S. dollar during inflation, the Government would use a tax, possibly increasing it, to drive the gold out of circulation once again or to make it less profitable as a form of money.

So, as a whole, I think, from the point of view of the individual citizens, I think not having a tax on it is beneficial.

Chairman ANNUNZIO. Mrs. Busiek, I listened to your testimony. I have read your testimony and looked at your design, and I think you have answered my questions about offering this design as a gift, but what inspired you to develop this design?

Mrs. BUSIEK. Well, basically, my inspiration came from the fact that I love my country, that I am a wife and a mother, and those are the priorities in my life, but to be more specific, I was inspired to submit this design by a small article I happened to read in the Wall Street Journal announcing the formation of the Gold Commission, and as an artist and a creative person, it seemed to me this would raise the opportunity as a means of doing the very thing I stated here, as a way of stating to the world what America stands for, and I cannot think of a finer and more dignified place to do that than on the face of a solid gold coin.

Chairman ANNUNZIO. Well, I commend you once again. Your last statement is an inspiration to all of us. Thank you very much.

Mr. Paul?

Mr. PAUL. I want to ask Mr. Vieira a question regarding some early American coins. Were there any early American Government coins that did not have a dollar denomination on them, or did they always have dollar denominations? Maybe Mr. Wilde can help us on this, too.

Mr. VIEIRA. Actually, from the legal perspective, up until, I believe, 1849, the only dollar in circulation was the silver dollar, and the various gold coinage or the subsidiary coinage, the copper coinage, was valued by the statutes in terms of dollars, but never called dollars.

1849 was the first issuance of a gold coin called a dollar or the amount of gold equivalent to a silver dollar. Between 1831 and 1834, the House Committee on Banking and Coinage seriously considered doing something very similar to what is being done now, which is to issue gold coins that did not have any type of dollar valuation by statute, to leave to the market the determination of value.

I believe it was more traditionalism than anything else that caused them to return to the earlier system of valuing the gold coins by statute, and of course what followed thereafter were all of the difficulties of the bimetallic system under an open evaluation of the various competing coins, so what is being done here seems to be about 150 years late, but certainly correct.

Mr. PAUL. Mr. Wilde?

Mr. WILDE. No, sir, Doctor, you could not see an actual valuation on the first gold struck.

Mr. PAUL. No dollar denomination?

Mr. WILDE. That is correct. You could not find it on the early pieces. If you look at a picture, sometimes when I look at a picture of an early gold coin I have to stop and think, now, what is this, is this a $5, is this a $10. I am not sure what it is until I can go back and refer to my own records.

Mr. PAUL. And they served as legal tender mainly because a clause in the Constitution said gold and silver were legal tender?

Mr. WILDE. And the piece by its size would give its denomination. The size of the coin gave its denomination. That is why I say with a picture it is sometimes difficult to tell. From the size of the coin I can tell what the denomination is, even though the denomination is not stated.

Mr. PAUL. Thank you. I have a question for Dr. Salerno. The possibility comes up in the discussion of gold circulating freely, fluctuating with paper. If this happened and some individuals decided to deal in gold rather than paper, and borrowing occurred, and loaning occurred, could you give us some ball park figure, an estimate of what interest rates might be if we were dealing in gold versus what might happen, say, 2 years from now if we have a lot of inflation, paper inflation? What would be the comparison?

Dr. SALERNO. A ball park figure could be, if the value of gold is fairly stable, if there were no new gold finds to increase supply, I would say the real interest rate would be between 3 and 5 percent on loans in gold.

Mr. PAUL. People would be willing to loan their gold and get a 3-percent rate of return?

Dr. SALERNO. There would not be an inflationary premium on it.

Mr. PAUL. What happens if we had some of the inflation you are anticipating? What do you anticipate interest rates may go to in the next several years?

Dr. SALERNO. I think we may see a ratcheting up of interest rates. We may see them pushed down further now, but as inflation heats up again, that will be reflected in higher interest rates, maybe 15 to 16 percent again, and then it will be pushed down once again, and I see, if the scenario plays itself out, if the Fed yields to the pressure on it, which I think it is doing right now, to push down interest rates, I can see interest rates going above 20 percent easily in the next 2 or 3 years.

Mr. PAUL. That is all I have. Thank you again.

Chairman ANNUNZIO. Thank you, Mr. Paul.

I again want to repeat that these hearings have been enlightening to me, and I appreciate all of the testimony, the answers to the questions, your testimony on H.R. 6054, the legislation that was sponsored by Mr. Paul, and I will declare this hearing adjourned, and I thank you all very much for your cooperation.

[Whereupon, at 12:15 p.m., the subcommittee was adjourned, to reconvene upon the call of the Chair.]

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